This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commission in the provinces of British Columbia, Alberta and Ontario but which has not yet become final for the purpose of a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such provinces prior to the time a receipt for the final prospectus is obtained from the appropriate securities commission. These securities have not been and will not be registered under the *United States Securities Act of 1933*, as amended and, subject to certain exceptions, may not be offered, sold or delivered in the United States. See "Plan of Distribution".

PRELIMINARY PROSPECTUS DATED APRIL 1, 1999

THIS PROSPECTUS CONSTITUTES A PUBLIC OFFERING OF THESE SECURITIES ONLY IN THOSE JURISDICTIONS WHERE THEY MAY BE LAWFULLY OFFERED FOR SALE AND THEREIN ONLY BY PERSONS PERMITTED TO SELL SUCH SECURITIES. NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREUNDER AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE.

New Issue ● , 1999

EQUATORIAL ENERGY INC.

17,580,000 Common Shares and 8,790,000 Warrants Issuable Upon the Exercise of 17,580,000 Special Warrants

This prospectus qualifies for distribution 17,580,000 common shares ("Common Shares") and 8,790,000 warrants ("Warrants") in the capital of Equatorial Energy Inc. ("Equatorial" or the "Corporation") issuable by the Corporation upon the exercise of 17,580,000 previously issued special warrants (the "Special Warrants"). Each Special Warrant entitles the holder thereof to acquire one Common Share and one-half of one Warrant, at no additional cost, at any time until 4:30 p.m. (Calgary time) on the earlier of: (i) five days after the day upon which a receipt for the final version of this prospectus has been issued by the last of the securities commissions in the provinces of British Columbia, Alberta and Ontario; and (ii) February 26, 2000 (the "Expiry Time"). Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. Each whole Warrant entitles the holder thereof to acquire one Common Share for consideration of $0.65 at any time prior to 4:30 p.m. (Calgary time) on February 25, 2002. If a receipt for the final version of this prospectus is not obtained on or before May 27, 1999 from the securities commissions in each of the provinces of British Columbia, Alberta and Ontario, each holder of Special Warrants shall be entitled, upon exercise or deemed exercise of any Special Warrants that have not been previously exercised, at any time after May 27, 1999, to acquire 1.1 Common Shares and one-half of one Warrant for each Special Warrant, at no additional cost to such holder. See "Plan of Distribution". The distribution to the Agent of 1,000,000 Warrants issuable upon the exercise of 1,000,000 previously issued Compensation Warrants is also qualified by this prospectus.

The Special Warrants were issued under a special warrant indenture between Equatorial and Montreal Trust Company of Canada dated as of February 26, 1999 and were sold to investors at the price of $0.50 per Special Warrant, pursuant to prospectus exemptions under applicable securities legislation, by First Marathon Securities Limited (the "Agent"), as agent. The offering price of $0.50 per Special Warrant was determined by negotiation between Equatorial and the Agent. See "Plan of Distribution".

	Price to Public	Agent's Commission [2]	Net Proceeds to the Corporation[3]
Per Special Warrant [1]	$0.50	$0.03	$0.47
Total Special Warrants	$8,790,000	$440,400	$8,349,600

Notes:

(1) The Corporation will receive no proceeds, and the Agent shall receive no commission or fee, in connection with the distribution of the Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants.

(2) The Agent's commission was 6% of the gross proceeds from the distribution of the Special Warrants other than on the private placement of 2,400,000 Special Warrants to Gulf Canada Resources Limited in respect of which there was no commission paid and on 1,000,000 Special Warrants sold to certain subscribers brought forward by the Corporation in respect of which a 3% commission was paid. In addition to the fee paid to the Agent, the Corporation issued to the Agent 1,000,000 broker compensation warrants ("Compensation Warrants"). Each Compensation Warrant entitles the holder thereof to acquire one Warrant. The Corporation will also reimburse the Agent for its fees (including the fees of legal counsel) and expenses incurred by it in connection with the distribution of the Special Warrants. See "Plan of Distribution."

(3) Before deducting the estimated expenses associated with the distribution of the Special Warrants and this prospectus, estimated to be $200,000.

An investment in the securities to be qualified hereunder should be considered highly speculative due to the nature of Equatorial's business, which is concentrated on the exploration, development, production, and marketing of oil and natural gas in Western Canada and Indonesia, and due to Equatorial's present stage of development. These factors and others should be considered in evaluating the securities to be qualified hereunder. See "Risk Factors". The issue price for each Special Warrant exceeds the net tangible book value per Common Share as at December 31, 1998 after giving effect to the issue of Special Warrants by $0.27 representing dilution of 54%. See "Dilution".

The Common Shares are listed for trading on the Vancouver Stock Exchange (the "VSE") and the closing price on February 25, 1999, the last trading day prior to the announcement of the offering of the Special Warrants, was $0.62. The closing price of the Common Shares on March 31, 1999 was $0.43. See "Trading History of Common Shares".

Certificates representing the Common Shares and the Warrants will be available for delivery following the exercise of the Special Warrants. Certain legal matters relating to the offering of the Special Warrants and the Common Shares and Warrants issuable upon the exercise of the Special Warrants and the Common Shares issuable upon exercise of the Warrants have been reviewed on behalf of the Corporation by Bennett Jones, Calgary, Alberta and, on behalf of the Agent, by Osler, Hoskin & Harcourt, Calgary, Alberta.

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GLOSSARY OF TERMS

In this prospectus, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

"**Agency Agreement**" means the agency agreement dated February 4, 1999 as amended by letter agreements dated February 26, 1999 and March 26, 1999 between the Agent and the Corporation relating to the private placement of the Special Warrants;

"**Agent**" means First Marathon Securities Limited;

"**API**" means the American Petroleum Institute;

"**API gravity**" means the method of expressing the specific gravity of crude oil in degrees;

"**ATP**" means authority to prospect;

"**CICA**" means Canadian Institute of Chartered Accountants, the principal accounting standard setting body in Canada;

"**Common Share**" or "**Common Shares**" mean, respectively, one or more common shares in the capital of the Corporation;

"**Common Share Purchase Warrants**" means Common Share purchase warrants in the capital of the Corporation, but excluding the Warrants;

"**Company Reserves**" are defined as the Corporation's working interest share of remaining reserves of the properties before all taxes, royalties and Government Take;

"**Compensation Warrants**" means the 1,000,000 broker compensation warrants issued by the Corporation to the Agent pursuant to the Agency Agreement entitling the holder to acquire one Warrant for each Compensation Warrant held;

"**Convertible Debentures**" means the convertible debentures of the Corporation issued on November 20, 1998 at a face value of $1,000 per convertible debenture;

"**Corporation**" or "**Equatorial**" means Equatorial Energy Inc., a corporation continued under the laws of the Province of Alberta;

"**Credit Agreement**" means the credit agreement dated February 25, 1999 among Equatorial, a Canadian chartered bank and other lenders which become a party thereto;

"**Credit Facility**" means the five year revolving term credit facility obtained from a Canadian chartered bank in the amount of $45,000,000;

"**EPS**" means Energy Process Services Limited, a corporation incorporated under the laws of the British Virgin Islands and an indirect wholly owned subsidiary of the Corporation;

"**EQII**" means Equatorial Energy (International) Inc., a corporation incorporated under the laws of Barbados and a wholly owned subsidiary of the Corporation;

"**Equity Agreements**" means the two equity agreements entered into between EQII and each of Newstar and New Crystal on September 14, 1998;

"**Expiry Time**" means 4:30 p.m. (Calgary time) on the earlier of: (i) five days after the date upon which a receipt for the final prospectus, and any amendments thereto, issued by the last of the securities commissions in the Filing Jurisdictions, has been obtained by Equatorial; and (ii) February 26, 2000;

"**FDM**" means First Dynasty Mines Ltd.;

"**FDM Note 1**" means the promissory note issued by EQII on September 14, 1998 in favour of FDM pursuant to the Trust Indenture for the original principal amount of US$ 2,000,000;

"**FDM Note 2**" means the contingent promissory note issued by EQII on September 14, 1998 in favour of FDM pursuant to the Trust Indenture for the original principal amount of US$ 3,000,000;

"**field**" means an area defined by one or more wells which is capable of producing crude oil and/or natural gas in commercial quantities;

"**Filing Jurisdictions**" means the provinces of British Columbia, Alberta and Ontario;

"**GEPS**" means Genindo EPS Petroleum Ltd., a corporation incorporated under the laws of the British Virgin Islands and an 80% owned subsidiary of EPS;

"**GEPS TAC**" means GEPS' 100% interest in an Indonesian TAC dated effective May 1, 1994 with Pertamina;

"**GLJ**" means Gilbert Lausten Jung Associates Ltd., independent petroleum consultants, Calgary, Alberta;

"**GLJ Canada Report**" means the report dated February 16, 1999, prepared by GLJ evaluating the Corporation's petroleum and natural gas reserves in Canada as of September 1, 1998;

"**GLJ Indonesia Report**" means the report dated March 23, 1999, prepared by GLJ evaluating the Corporation's petroleum and natural gas reserves in Northeast Kalimantan, Indonesia as of January 1, 1999;

"**Government Take**" means Pertimina's interest in the Indonesian properties other than income and revenue taxes;

"**gross acres**" means the total number of acres in which the Corporation has an interest;

"**Gross Interest**" means a 100% interest in an oil and gas property;

"**Gulf Acquisition**" means the purchase by the Corporation of certain western Canadian oil and gas properties from Gulf Canada for $72,000,000 on February 26, 1999;

"**Gulf Canada**" means Gulf Canada Resources Limited;

"**Ivanhoe**" means Ivanhoe Capital Finance Ltd.;

"**Ivanhoe Note**" means the promissory note issued by EQII on September 14, 1999 pursuant to the Trust Indenture in favour of Ivanhoe for the original principal amount of US$ 8,388,500;

"**Linyi**" means Linyi Holdings Limited;

"**Linyi Note**" means the promissory note issued by EQII on September 14, 1998 pursuant to the Trust Indenture in favour of Linyi for the original principal amount of US$ 5,298,000;

"**net acres**" means gross acres multiplied by the Corporation's percentage working interest therein;

"**New Crystal**" means New Crystal Company Ltd.;

"**Net producing wells**" means the Corporation's working interest multiplied by the number of producing wells;

"**Newstar**" means Newstar Securities Ltd.;

"**Pertamina**" means Perusahaan Pertambangan Minyak Dan Gas Bumi Negara, the state oil and gas company of Indonesia;

"**Pilona**" means Pilona Petro Tanjung Lontar Ltd., an indirect wholly owned subsidiary of the Corporation organized under the laws of the British Virgin Islands;

"**Pilona TAC**" means Pilona's 100% interest in an Indonesian TAC dated October 7, 1996 with Pertamina;

"**Preferred Share**" or "**Preferred Shares**" means one or more preferred shares in the capital of the Corporation;

"**Primewest**" means Primewest Energy Inc.;

"**Promissory Note**" means the 7.2% subordinated promissory note dated February 26, 1999 issued by Equatorial in favor of Gulf Canada for the original principal amount of $10,000,000 as part of the Gulf Acquisition;

"**Ryder Scott**" means Ryder Scott Company, Petroleum Engineers, Calgary, Alberta;

"**Ryder Scott Report**" means the report dated February 2, 1999 prepared by Ryder Scott evaluating certain of the Corporation's petroleum and natural gas reserves of western Canada as of September 1, 1998;

"**Series 1 Preferred Shares**" means the 6.5%, convertible, redeemable series 1 Preferred Shares;

"**Special Warrants**" means the special warrants of Equatorial issued pursuant to the Special Warrant Indenture and entitling the holders thereof to acquire, subject to adjustments, one Common Share and one-half of one Warrant;

"**Special Warrant Indenture**" means the special warrant indenture dated February 26, 1999 between the Corporation and the Trustee;

"**TAC**" means technical assistance contract;

"**Trust Indenture**" means the trust indenture dated September 14, 1998, as amended, among EQII, Equatorial, CIBC Mellon Trust Company, FDM, Ivanhoe and Linyi;

"**Trustee**" means Montreal Trust Company of Canada;

"**Voting Trust Agreements**" means the two voting trust agreements dated September 14, 1998 made between Newstar and Marshall Abbott, President of Equatorial and between New Crystal and Dave Matheson, Executive Vice-President of Equatorial;

"**Warrant**" or "**Warrants**" mean, respectively, one or more Common Share purchase warrants issued pursuant to the Warrant Indenture;

"**Warrant Indenture**" means the Common Share purchase warrant indenture dated February 26, 1999 made between the Corporation and the Trustee; and

"**working interest**" means the net interest held by the Corporation in an oil and natural gas property which normally bears its proportionate share of the costs of exploration, development and operation as well as any royalties or other production burdens.

CONVENTIONS

Certain terms used herein are defined in the "Glossary of Terms". Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars and references to "Rupiah" or "Rp" are to Indonesian rupiah. All financial information with respect to the Corporation has been presented in Canadian dollars in accordance with generally accepted accounting principles in Canada. Certain Rupiah amounts have been translated into dollars at specified rates. Dollar equivalent information for amounts in Rupiah is accumulated daily based on the Bank of Montreal Treasury Group's mid-market noon rates for large volume transactions in Toronto, Canada.

ABBREVIATIONS

The following abbreviations are used in this prospectus to represent the following terms:

"***Bcf***"	means one billion cubic feet;
"***Bbl***"	means barrel and "***Bbls***" means barrels;
"***Bbls/d***"	means barrels per day;
"***BOE***"	means barrels of oil equivalent, with natural gas converted at 10 Mcf of gas per barrel of oil equivalent unless otherwise stated;
"***BOEPD***"	means BOE per day;
"***BOPD***"	means barrels of oil per day;
"***GOR***"	means gas-oil ratio;
"***Mbbls***"	means 1,000 barrels;
"***MBOE***"	means 1,000 BOE;
"***Mcf***"	means 1,000 cubic feet;
"***Mcf/d***"	means 1,000 cubic feet per day;
"***mD"***	means unit of permeability milidarcy;
"***MMBbls***"	means 1,000,000 barrels;
"***Mmcf***"	means 1,000,000 cubic feet;
"***Mmcf/d***"	means 1,000,000 cubic feet per day;
"***Mstb***"	means 1,000 stock tank barrels;
"***MMstb***"	means 1,000,000 stock tank barrels;
"***NGL's***"	means natural gas liquids;
"***SCF***"	means standard cubic feet; and
"***Stb***"	means stock tank barrel.

CONVERSION

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.317
metres	cubic feet	35.494
Bbls	cubic metres	0.159
cubic metres	Bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

PROSPECTUS SUMMARY

The information contained in this summary is qualified by, and must be read in conjunction with, the more detailed information appearing elsewhere in this prospectus. Certain terms used in this summary and in this prospectus are defined under "Glossary of Terms".

The Corporation

Equatorial Energy Inc. is a Calgary-based independent company engaged in the acquisition, exploration and development of oil and gas properties in western Canada and Indonesia. See "The Corporation".

The Offering

A total of 17,580,000 Special Warrants have been issued pursuant to prospectus exemptions under applicable securities legislation at the price of $0.50 per Special Warrant, for an aggregate consideration of $8,790,000. The Special Warrants were issued pursuant to the Special Warrant Indenture. Since the date of issuance, no Special Warrants have been exercised. Each Special Warrant entitles the holder thereof to acquire, at no additional cost, one Common Share and one-half of one Warrant at any time prior to the Expiry Time. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. Each whole Warrant entitles the holder thereof to acquire one Common Share at the price of $0.65 at any time prior to 4:30 p.m. (Calgary time) on February 25, 2002.

If a receipt for the final version of this prospectus is not obtained on or before May 27, 1999 from the securities commissions in each of the Filing Jurisdictions, each holder of Special Warrants shall be entitled, upon exercise or deemed exercise of any Special Warrants that have not been previously exercised, to acquire 1.1 Common Shares and one-half of one Warrant for each Special Warrant, at no additional cost to such holder. See "Plan of Distribution".

Use of Proceeds

The net proceeds from the sale of the Special Warrants are expected to be approximately $8,149,600, after deducting the Agent's commissions and expenses of the offering. The proceeds from the sale of the Special Warrants have been, or will be, used as follows:

Gulf Acquisition	$5,000,000
Repayment of FDM Note 1	3,066,600(1)
General working capital	83,000
	$8,149,600

Note:

(1) The proceeds from FDM Note 1 were used in connection with the acquisition of EPS from FDM by EQII. See "Business and Properties of the Corporation - Indonesia - GEPS TAC - Overview". Represents repayment of US$ 2,000,000.

See "Business and Properties of the Corporation" and "Use of Proceeds".

Selected Financial and Production Information

Selected Financial Information:

The following is a summary of selected financial information of the Corporation for the periods indicated. See "Consolidated Financial Statements".

	As at and For the Year Ended December 31		
	1998	**1997**	**1996**
	(audited)	**(audited)**	**(audited)**
Revenue, net of Government Take	$2,591,141	-	-
Net loss	($24,364,969)	($1,053,371)	($521,660)
Net loss per share	($0.82)	($0.07)	($0.07)
Funds used in operations	$2,800,342	$1,026,593	$518,097
Funds used in operations per share	$0.09	$0.07	$0.07
Working capital (deficiency)	$369,742	$8,379,733	
Long term debt	$26,575,311	-	
Shareholders' equity	$6,080,577	$24,375,809	
Weighted average number of Common Shares(1)	29,852,495	14,336,331	7,381,256

Notes:

(1) As at March 31, 1999, there were 43,065,736 Common Shares and 21,134,203 Series 1 Preferred Shares issued and outstanding.

Selected Production Information:

The following table sets forth certain production information relating to the Corporation's oil interests for the period indicated. As at December 31, 1998, the Corporation had no natural gas production. All information is stated prior to the deduction of Government Take. See "Business and Properties of the Corporation - Production History".

	Year Ended December 31, 1998
Average daily oil and NGL's production (Bbls/d)	863
Total oil and NGL's production (Mbbls)	314,868

Selected Reserve Information

GLJ and Ryder Scott evaluated the oil and natural gas reserves attributable to the Canadian petroleum and natural gas properties of the Corporation effective September 1, 1998. Ryder Scott evaluated the following properties: Boundary Lake, Eaglesham, Pica and Blueberry in northwest Alberta; Cypress, Shaunavon and Atlas in southwest Saskatchewan; a variety of properties in northeast Alberta; Frog Lake/Beacon Hill, Manyberries, Medicine Hat, Turin, Winnifred, Winnifred South and a variety of other smaller properties in southeast Alberta; Carrot Creek, Niton, Tomahawk, Two Creek/Meekwap and Windfall/Kaybob in west central Alberta; Craigmyle, Drumheller, Provost and south Stanmore in east central Alberta. Cygnet and Nevis in central Alberta; and Gilby, Medicine River and Willesden Green in the Gilby area. In southeast Saskatchewan Ryder Scott evaluated the Fertile, Hitchcock and Parkman properties and lastly in northeast British Columbia the Kyklo and a variety of other properties were studied. GLJ evaluated the following properties: Gordondale, Bilawchuck, Elmworth, Warwick, Hays, Grand Forks/Grassy, Berry, Kirkpatrick, Malmo, Wauchope, Arcola, Kaybob South Triassic Unit 2 and Bigoray. GLJ evaluated the oil and natural gas reserves attributable to the Indonesian petroleum and natural gas properties of the Corporation effective January 1, 1999 except the Tanjung Lontar property which has been evaluated by management of the Corporation. The following tables set forth certain information relating to the oil, gas and NGL's reserves associated with such properties and the present value of the future net cash flows associated with such reserves. **The information set forth below is derived from the GLJ Canada Report, the Ryder Scott Report and the GLJ Indonesia Report. All evaluations of future net cash flows are stated prior to any provision for income taxes, indirect costs and future site restoration costs and after deduction of future capital expenditures. It should not be assumed that the future net cash flows shown below are representative of the fair market value of the relevant reserves.** GLJ relied upon information provided by the Corporation and Pertamina in preparing the GLJ Indonesia Report. Ryder Scott and GLJ relied upon information provided by Gulf Canada in preparing the Ryder Scott Report and the GLJ Canada Report, respectively. See "Business and Properties of the Corporation - Reserves".

Constant Dollar Economics

	Company Reserves			Present worth discounted at			
	Oil	**Gas**	**NGL's**	**0%**	**10%**	**15%**	**20%**
	(Mbbls)	(Mmcf)	(Mbbls)	($000's)	($000's)	($000's)	($000's)
WESTERN CANADA							
Proved Producing							
GLJ	2,498	33,171	1,141	57,545	43,284	38,861	35,442
Ryder Scott	596	7,305	73	13,982	9,279	8,047	7,136
Total Proved Producing	3,094	40,476	1,214	71,527	52,563	46,908	42,578
Proved Undeveloped							
GLJ	366	6,678	63	9,154	5,388	4,286	3,441
Ryder Scott	11	12,084	2	6,890	3,595	2,675	2,016
Total Proved Undeveloped	377	18,762	65	16,044	8,983	6,961	5,457
Total Proved							
GLJ	2,864	39,849	1,204	66,699	48,672	43,147	38,883
Ryder Scott	607	19,389	75	20,872	12,874	10,722	9,152
Total Proved	3,471	59,238	1,279	87,571	61,546	53,869	48,035
Probable							
GLJ	996	26,948	1,277	37,704	23,369	19,442	16,575
Ryder Scott	63	2,821	17	2,750	1,546	1,237	1,019
Total Probable	1,059	29,769	1,294	40,454	24,915	20,679	17,594
Total Proved and Probable Additional Reserves							

	Company Reserves			Present worth discounted at			
	Oil	**Gas**	**NGL's**	**0%**	**10%**	**15%**	**20%**
	(Mbbls)	(Mmcf)	(Mbbls)	($000's)	($000's)	($000's)	($000's)
GLJ	3,860	66,797	2,481	104,403	72,041	62,589	55,458
Ryder Scott	670	22,210	92	23,622	14,420	11,959	10,171
Total Proved and Probable Additional Reserves	4,530	89,007	2,573	128,025	86,461	74,548	65,629
TANJUNG LONTAR							
Proved Producing	554	-	-	4,590	3,299	2,856	2,500
Total Proved	554	-	-	4,590	3,299	2,856	2,500
SEMBAKUNG							
Proved Producing	6,133	-	-	7,817	5,937	5,287	4,763
Proved Undeveloped	7,027	-	-	21,411	14,171	11,691	9,708
Total Proved	13,160			29,228	20,108	16,978	14,471
Probable	22,650	-	-	74,657	35,211	24,655	17,314
Total	35,810	-	-	103,885	55,319	41,633	31,785
ALL PROPERTIES TOTALS							
Proved Reserves							
Proved Producing	9,781	40,476	1,214	83,934	61,799	55,051	49,841
Proved Undeveloped	7,404	18,762	65	37,455	23,154	18,652	15,163
Total Proved	17,185	59,238	1,279	121,389	84,953	73,703	65,004
Probable	23,709	29,769	1,294	115,111	60,126	45,334	34,908
Total Proved Plus Probable Additional Reserves	40,894	89,007	2,573	236,500	145,079	119,037	99,912
Total Proved Plus Half Probable Additional Reserves	29,040	74,123	1,926	178,945	115,016	96,370	82,458

Risk Factors

An investment in the Special Warrants, the Common Shares and Warrants should be considered highly speculative due to the nature of Equatorial's business and Equatorial's present stage of development. Prospective investors should carefully consider a number of risk factors, including those set out below and as set forth under the heading "Risk Factors". In addition, prospective investors should carefully review and consider all other information contained in this prospectus before making an investment decision.

The Corporation's business is subject to various risks normally encountered in the oil and natural gas industry, including those associated with oil and natural gas exploration, development and production, successful marketing of oil and natural gas, government regulations, exchange rate fluctuations, fluctuations in crude oil, natural gas and refined petroleum product prices and uncertainty in reserve estimates. Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made by the Corporation will result in any discoveries of oil and gas in commercial quantities. The Corporation's future revenue, cash flow and profitability are substantially dependent upon prevailing prices of, and demand for, oil and natural gas, which prices may be subject to wide fluctuations. The oil and gas industry is highly competitive and the Corporation will be competing with other companies and individuals with greater resources than the Corporation. There can be no assurance that the Corporation will be able to obtain adequate financing in the future to fund further exploration and development and, if available, whether it will be available on favourable terms. Approximately 35% of Equatorial's operations are concentrated in Indonesia and are subject to risk due to the potential for social, political, economic, legal and fiscal instability. No assurance can be given that current policies of the Indonesian Government or the political situation within Indonesia will not change so as to affect the value or continued viability of Equatorial's interests in Indonesia. The year 2000 exposes Equatorial to risk related to computer software and hardware malfunction. Equatorial has not paid any dividends and it is not expected that dividends will be paid in the foreseeable future. See "Risk Factors".

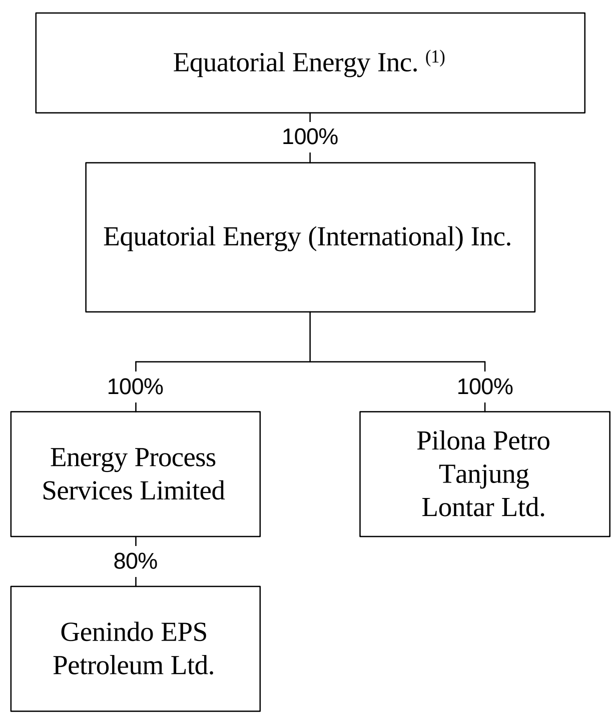
THE CORPORATION

General

The Corporation was incorporated under the laws of the Province of British Columbia on October 29, 1981 under the name "Laurel Explorations Ltd." and its common shares commenced trading on the VSE on August 8, 1984. On February 22, 1991, the Corporation's name was changed to "Linden Explorations Inc." and its common shares were consolidated on a four for one basis. On May 13, 1996, Linden Explorations Inc. acquired all of the issued and outstanding shares of Australian Oilfields Pty. Ltd., a private corporation incorporated under the laws of the Province of Alberta ("Subco") in exchange for the issuance of 9,025,000 common shares of Linden. This acquisition resulted in a change of control of the Corporation and was accounted for as a reverse takeover with Subco treated, for accounting purposes, as the acquiring company pursuant to generally accepted accounting principles. The Corporation became the legal parent of Subco and all of the assets of Subco were subsequently transferred to the Corporation and Subco was voluntarily dissolved. On May 23, 1996, the Corporation's name was changed to "Australian Oilfields Pty. Ltd." On June 10, 1997, the Corporation was continued under the laws of the Province of Alberta as "Equatorial Energy Inc." and its share capital was reorganized. The Corporation's head office is located at 1000, 521 - 3rd Avenue S.W., Calgary, Alberta T2P 3T3 and its registered office is located at 4500 Bankers Hall East, 855 - 2nd Street S.W., Calgary, Alberta T2P 4K7.

Corporate Chart

A schematic diagram of the corporate structure of the Corporation and its material subsidiaries is set out below, with ownership of voting securities set out as a percentage.



Note:
(1) Auckland Investments Pty. Ltd. is also a wholly owned subsidiary of Equatorial Energy Inc.

BUSINESS AND PROPERTIES OF THE CORPORATION

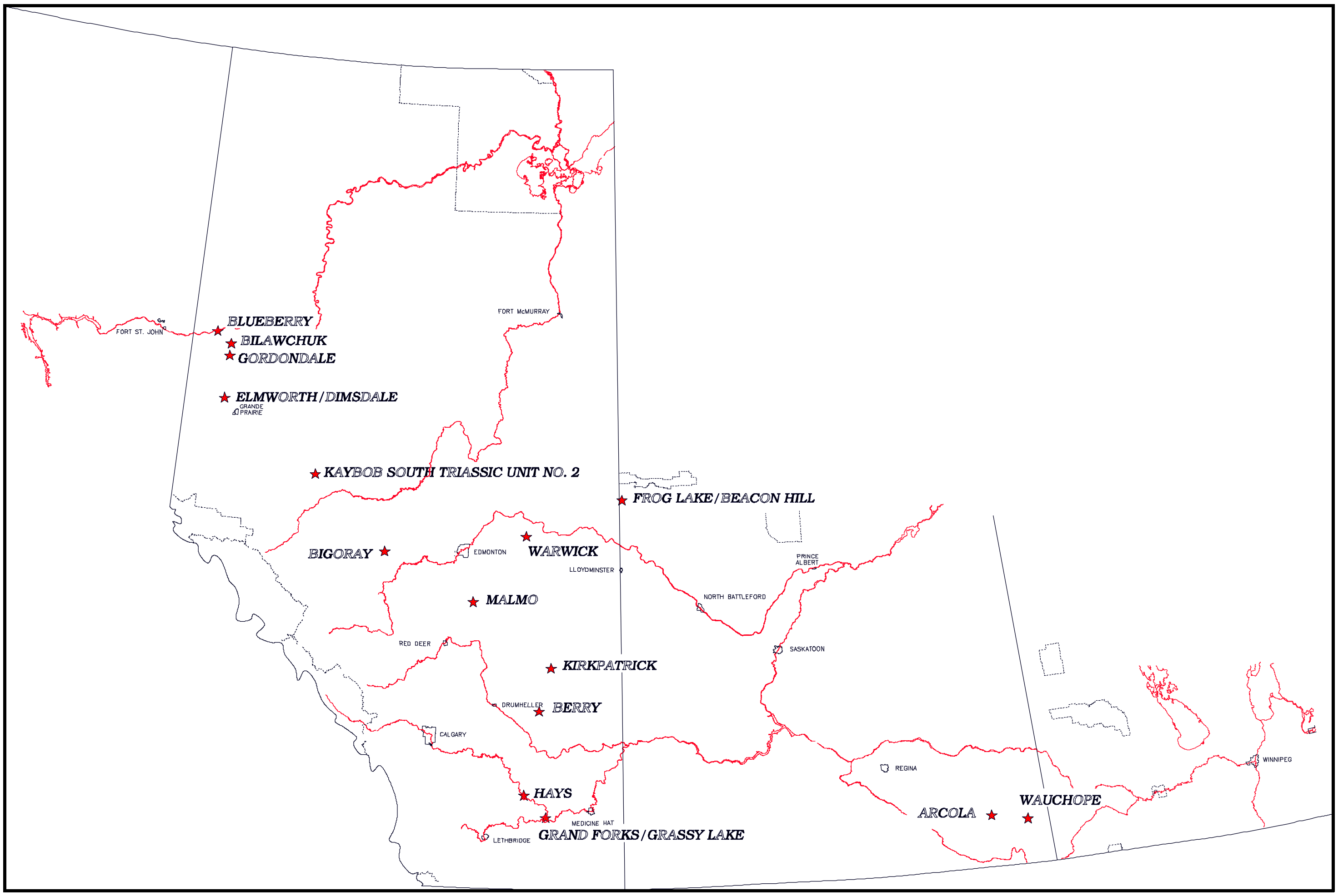
General

Equatorial Energy Inc. is a Calgary-based independent company engaged in the acquisition, exploration and development of oil and gas properties in western Canada and Indonesia.

The Corporation has two wholly owned subsidiaries, Equatorial Energy (International) Inc., a Barbados company incorporated on November 5, 1997 and Auckland Investments Pty. Ltd., a Queensland, Australia company incorporated on April 9, 1997. EQII has two wholly owned subsidiaries, Pilona Petro Tanjung Lontar Ltd., a British Virgin Islands company incorporated on February 7, 1996 and Energy Process Services Limited, a British Virgin Islands company incorporated on September 29, 1993. EPS owns 80% of the issued and outstanding common shares of Genindo EPS Petroleum Ltd., a company incorporated in the British Virgin Islands on October 4, 1993.

From November, 1996 to February, 1999, the Corporation actively developed the Pilona and GEPS TAC's in Indonesia jointly with Pertamina. A write-down of $17,000,000 was taken against the carrying value of the Pilona TAC in 1998, of which approximately 88% is attributable to management's revision of the Pilona TAC proved reserve volumes from 4,862,200 Bbls to 554,000 Bbls, and approximately 12% attributable to low oil prices. Operations in Australia were, during this period, terminated and the Corporation's investment in its Australian exploration efforts written off.

In February, 1999, the Corporation completed the Gulf Acquisition which increased the Corporation's natural gas reserves as a percentage of the Corporation's total reserves during a period of lower worldwide oil prices.


BLUEBERRY
FORT ST. JOHN
BILAWCHUK
GORDONDALE
ELMWORTH/DIMSDALE
GRANDE PRAIRIE
FORT McMURRAY
KAYBOB SOUTH TRIASSIC UNIT NO. 2
FROG LAKE/BEACON HILL
BIGORAY
EDMONTON
WARWICK
LLOYDMINSTER
PRINCE ALBERT
NORTH BATTLEFORD
MALMO
RED DEER
SASKATOON
KIRKPATRICK
DRUMHELLER
BERRY
CALGARY
REGINA
WINNIPEG
HAYS
ARCOLA
WAUCHOPE
MEDICINE HAT
LETHBRIDGE
GRAND FORKS/GRASSY LAKE

Canada

Gulf Acquisition

On February 26, 1999, the Corporation purchased certain oil and gas properties in western Canada from Gulf Canada for $72,000,000, before adjustments. The oil and gas properties acquired from Gulf Canada (the majority of which are located in the Province of Alberta), consist of:

(a) proven and probable risked oil and liquids reserves of four million Bbls and proven and probable risked gas reserves of 74.122 Bcf with net daily production averaging approximately 2,900 Bbls of oil and NGL's approximately 25 Mmcf of gas for a total of 5,400 BOEPD as at March 15, 1999;

(b) gas facilities and other associated production equipment; and

(c) approximately 264,959 gross hectares (162,148 net hectares) of undeveloped leasehold interests.

Financing for the Gulf Acquisition consisted of a $45,000,000 conventional oil and gas loan (see "Capitalization"), cash proceeds of $5,000,000 from the sale of the Special Warrants, the issuance to Gulf Canada of a $10,000,000 Promissory Note and the issuance to Gulf Canada of 21,134,203 Series 1 Preferred Shares at a value of $12,000,000. See "Description of Share Capital" and "Capitalization".

In connection with Ivanhoe's and Linyi's consent to the subordination of the Ivanhoe Note and the Linyi Note to permit the Gulf Acquisition to occur, Equatorial and EQII amended the Equity Agreements, the Voting Agreements and the default terms of the Ivanhoe Note and the Linyi Note as follows: (i) the maturity dates of both the Ivanhoe Note and the Linyi Note were changed to March 28, 2001 from September 14, 2001; (ii) the expiration date of the hold period of the 9,000,000 Common Shares held under the Equity Agreements was changed from September 14, 2001 to September 14, 1999; (iii) the principal under either the Ivanhoe Note or the Linyi Note will become immediately due and payable, and, upon the occurrence of certain events of default (see "Risk Factors - Capital Structure"), such principal plus accrued interest thereon will be immediately convertible, at the holder's option, into Common Shares based upon the market price prevailing at the time of default, subject to any regulatory floor prices; (iv) Newstar shall have the ability to appoint a member of the board of directors of the Corporation for as long as Newstar owns 10% of the issued and outstanding voting shares of the Corporation or while debt payable by EQII or Equatorial remains outstanding to Ivanhoe under the Trust Indenture; and (v) to allow for termination of the Voting Agreements if Ivanhoe or Linyi become entitled to convert the Ivanhoe Note and the Linyi Note, respectively, into Common Shares. In connection with FDM's consent to subordination of its outstanding debt to permit the Gulf Acquisition to occur, the Corporation and EQII repaid the FDM Note 1 with proceeds from the sale of the Special Warrants and EQII extended the term of the FDM Note 2 (payment of which is contingent upon certain Indonesian oilfield production targets being met) from five years to the life of the GEPS TAC pursuant to which the Sembakung oil field is operated. See "Business of the Corporation - Indonesia - GEPS TAC - Overview" and "Use of Proceeds".

The Gulf Acquisition has provided the Corporation with a significant base of production and a large inventory of exploitation and exploration opportunities. The acquisition package is comprised of 1100 wells, of which 609 will be operated by Equatorial upon completion of the transfer of operations from Gulf Canada to the Corporation which is scheduled to occur on May 31, 1999. These properties are located in an area stretching from northeast British Columbia to southeast Saskatchewan, with the majority being located in the Province of Alberta. However, much of the presently developed and producing lands are concentrated in a few properties.

Major operated oil producing properties are Grand Forks/Hays in southeast Alberta, the Provost area of east central Alberta and Arcola and Wauchope fields in southeast Saskatchewan. The major non-operated property is the Kaybob South Triassic Unit No. 2, which is operated by Primewest. The major operated gas producing properties are Bigoray in west central Alberta, Warwick and Frog Lake in northeast Alberta, Gordondale in northwest Alberta, Malmo in central Alberta and Kirkpatrick in east central Alberta.

Historical financial information on the Corporation's properties acquired pursuant to the Gulf Acquisition is as follows:

		1998
		(audited)
Oil and gas revenues	$	32,957,680
Royalties		5,925,780
		27,031,900
Operating expenses		11,998,970
	$	15,032,930

Production statistics on the properties acquired in the Gulf Acquisition are as follows:

	Gross Interest		
	1998	1997	1996
Oil (Bbls/d)	5,398.6	7,050.7	7,422.0
Gas (Mcf/d)	56,652.5	71,354.6	81,614.0
Liquids (Bbls/d)	1,502.3	1,910.1	2,013.1
	Net Working Interest (1)		
	1998	1997	1996
Oil (Bbls/d)	2,607.7	3,316.3	3,260.9
Gas (Mcf/d)	30,834.0	44,623.9	49,124.9
Liquids (Bbls/d)	511.0	704.8	544.6

Note:

(1) This data was derived from public database information. Working interest production is derived by applying the Corporation's working interest to the production statistics derived from public database information. Production decreased between 1996 and 1998 due to natural declines in productivity of the properties acquired in the Gulf Acquisition.

Major Canadian Properties

The following is a description of the Corporation's principal producing and exploration properties in Canada. The properties described below represent approximately 82% of the Corporation's estimated proven plus probable additional (risked) Canadian reserves effective as at September 1, 1998 and 93% of the Corporation's present worth of the estimated future net cash flows discounted at 15% attributed to the Corporation's proven plus probable additional (risked) Canadian reserves as described in the GLJ Canada Report and the Ryder-Scott Report. The term "risked" herein, when used in relation to probable additional reserves or the present worth of the estimated future net cash flows derived from such reserves, indicates that an arbitrary 50% risk factor has been applied in the GLJ Canada Report and the Ryder-Scott Report to the reserves and cash flows to account for geological and engineering risks associated with the recovery of petroleum substances from the probable additional reserves.

Kaybob South Triassic Unit No.2

The Corporation owns a 29.94 % working interest in the Kaybob South Triassic Unit No. 2, located in Township 62, Ranges 19 and 20 W5M, approximately 250 kilometres northwest of Edmonton, Alberta, which covers approximately 7,168 gross hectares (2,934 net hectares). The unit is operated by Primewest and its production consists of light, slightly sour, 42 degree API gravity oil, associated gas and natural gas liquids. The unit, which commenced production in 1967, is currently under waterflood.

The Kaybob South Triassic Unit No. 2 is producing from 22 oil wells (6.6 net producing wells) with pressure support provided by 13 water injectors in a peripheral waterflood scheme. The injectors are located both along the western boundary of the unit and along the oil-gas interface to reduce gas cap migration into the oil leg.

Recently Primewest completed a horizontal re-entry of an existing well bore which, when placed on production on December 16, 1998. Average gross unit production prior to the re-entry operation was 2116 BOPD and in February 1999, subsequent to the re-entry operation, the average gross unit production rate was 3467 BOPD.

The Kaybob South Triassic Unit No. 2 reservoir is a stratigraphic trap within the Montney Formation. Hydrocarbon entrapment is due to a facies change from a dolomite coquina into a tight siltstone in a northward direction. Company Reserves, on a proved plus probable basis, as estimated by GLJ, are 2065 Mstb of oil, 1.14 Mmcf of gas and 140.6 Mstb of NGL's. As of March 15, 1999, the Kaybob South Triassic Unit No. 2 was producing 1000 Bbls/d of oil, 500 Mcf/d of gas and 84 Bbls/d of NGL's, totaling 1134 BOEPD net to the Corporation.

Bigoray

The Bigoray property is located in Townships 50 and 52, Ranges 8 and 9 W5M, approximately 300 kilometres northwest of Calgary and covers approximately 6,870 gross hectares (3,589 net hectares). The Corporation is the operator of most of the Bigoray lands and holds working interests in the 6,870 gross hectares of land. Working interests vary from 25% to 100%, with the majority of the lands being 100% owned.

There are 15 producing wells (11.5 net producing wells) on the Bigoray property with nine wells currently producing sweet gas with NGL's from the Glauconite and Ostracod horizons. Gas produced from the Bigoray property is rich in NGL's. The Bigoray gas is processed at the Chevron Bigoray plant which is subject to deep cut processing, capable of ethanes plus extraction. The Corporation is reviewing the economics of re-entering and recompleting nine shut-in wells.

The majority of the reserves in the Bigoray property are associated with the Glauconite formation. Geological and pressure information has demonstrated that the Glauconite wells can be grouped into various common drainage pools, which are competitively drained. Company Reserves, on a proved plus probable basis, as estimated by GLJ are 34.6 Bcf of gas and 2.277 MMstb of NGL's. The Bigoray property produced an average of 7323 Mcf/d of gas and 335 Bbls/d of NGL's totalling 1067 BOEPD net to the Corporation during the fourth quarter of 1998.

Gulf Phase I

The package of properties acquired from Gulf Canada pursuant to the Gulf Acquisition consist of a large number of producing and non-producing properties extending from northeast British Columbia to southeast Saskatchewan ("Gulf Phase I"). Included within the package are approximately 249,535 gross hectares (152,192 net hectares) of undeveloped land. These properties include both oil and gas production with approximately 60% of the production being gas. The Corporation’s technical staff is reviewing several of the wellbores for re-completion and re-entry potential.

The Corporation has a controlling working interest and operatorship in most of the Gulf Phase I producing properties. Some of the major producing properties within Gulf Phase I include:

Pica

The Pica property is located approximately 320 kilometers northwest of Edmonton, Alberta and covers approximately 5,761 gross hectares (4,921 net hectares). The Corporation holds working interests ranging from 25% to 100% in approximately 22 sections of land in this area. Recently the 15-36-83-6 W6M well (100% working interest) was production tested at 10 Mmcf/d of rich, sweet natural gas liquids from a five meter interval within the Kiskatinaw formation. Equatorial expects to place the well on production in July of 1999.

The 15-36-83-6 W6M well had previously tested 1.2 Mmcf/d of sweet natural gas from the Bluesky Formation. In addition, logs indicate three meters of pay in the Montney Formation, which tested two Mmcf/d of sweet gas in an offsetting well approximately 1.5 kilometres to the east. Plans are underway to drill two wells in the two 100% working interest sections immediately offsetting to the east of the 15-36 well.

Company Reserves from the two producing wells (two net producing wells) are estimated by Ryder Scott at 977 Mmcf of proved producing gas reserves and 6,045 Mmcf in total proved reserves. The Pica property produced an average of 665 Mcf/d of gas totalling 67 BOEPD net to the Corporation during the fourth quarter of 1998.

Malmo

Equatorial holds working interests between 83% and 100% in the Malmo property which is located approximately 65 kilometres northeast of Red Deer, Alberta, in Townships 42 through 45, Ranges 21 through 24 W4M and covers approximately 9,726 gross hectares (7,861 net hectares). Malmo is a relatively recent development property. All of the reservoirs are shallow and numerous untested zones can be recognized as having potential based on well logs. The majority of production originates from Belly River pools. There are also eight standing gas wells. Company Reserves are estimated by GLJ at 2160 Mmcf proved producing gas reserves and 2260 Mmcf total proved reserves. The Malmo property produced an average of 1633 Mcf/d of gas totalling 163 BOEPD net to the Corporation during the fourth quarter of 1998 from 18 producing wells (17.7 net producing wells).

Warwick

The Corporation holds a 100% working interest in the majority of the lands within the Warwick property which is located approximately 100 kilometres east of Edmonton, Alberta and which covers approximately 9,489 gross hectares (8,545 net hectares). Gross production from the property increased threefold in 1996 to 5.8 Mmcf/d with the tie-in of two wells, one from the Nisku formation and the other from the Colony/Nisku formation within the Hairy Hills portion of the property. Property development in 1997 consisted of the drilling and tie-in of one Nisku well. No significant activity occurred in this area in 1998. A number of potential recompletion candidates have been recognized by the Corporation and management believes that further exploration potential exists within the current land holdings. Company Reserves are estimated by GLJ at 2680 Mmcf in proved producing gas and 2940 Mmcf in total proved gas reserves. The Warwick property produced an average of 2298 Mcf/d of gas totalling 230 BOEPD net to the Corporation during the fourth quarter of 1998 from 25 producing wells (22.1 net producing wells).

Frog Lake/Beacon Hill

The Frog Lake/Beacon Hill property is located within Townships 57 to 62, Ranges 23 W3M to 04 W4M, approximately 250 kilometres northeast of Edmonton, Alberta, and covers approximately 9,493 gross hectares (7,554 net hectares). Four of the producing wells form part of the Moonshine Colony A Pool. The working interest of the Corporation ranges from 24% to 100% with the majority of the wells at 100% working interest. Reserves are contained within the Grand Rapids, Colony, Cummings, McLaren and Mannville formations. Additional development activity has been recognized for the property with a number of wells scheduled for completion and tie-in during 1999. Additional lands are also available for development drilling. Company Reserves are estimated by GLJ at 4300 Mmcf proved producing gas reserves and 4590 Mmcf total proved gas reserves. The Frog Lake/Beacon Hill property produced an average of 2714 Mcf/d of gas totalling 271 BOEPD net to the Corporation during the fourth quarter of 1998 from 18 producing wells (14.5 net producing wells).

Kirkpatrick

The Kirkpatrick property is located approximately 200 kilometres northeast of Calgary, Alberta, extending from Townships 32 to 35, Ranges 10 to 24 W4M and covers approximately 28,675 gross hectares (19,233 net hectares) . The Corporation has varying working interest ranging from 11% to 100% and royalty interests in 16 gas wells in this property, which are producing from the Second White Specks, Viking and Mannville Formations. Gas production from the Kirkpatrick area commenced in 1976. The Corporation is currently reviewing the non-producing and unexplored acreage at Kirkpatrick for potential leads. Company Reserves are estimated by GLJ at 3190 Mmcf proved producing gas reserves. The Kirkpatrick property produced an average of 1242 Mcf/d of gas and three Bbls/d of NGL's totalling 127 BOEPD net to the Corporation during the fourth quarter of 1998 from the 27 producing wells (20.6 net producing wells).

Gordondale

The Corporation holds various interests, ranging from 6.25% to 100% in numerous wells in the Gordondale property in northwestern Alberta, approximately 300 kilometres northwest of Edmonton, Alberta which covers approximately 28,675 gross hectares (19,233 net hectares). This property consists of both oil and gas reserves and interests are held in several oil wells in the Halfway K Pool. The pool is fairly mature, with most of the Corporation’s wells currently producing at 5 to 10 BOPD. Total oil production is 50 BOPD from 10 wells. One well is responsible for half of the current oil production. In other areas, additional remaining oil reserves have been assigned to several Halfway, Charlie Lake and Doig wells. Gas reserves in the Gordondale property have been identified in various formations. In addition, numerous wells have been identified as candidates for reworking and/or tie-in, some to simply be tied-in and others to be recompleted or fraced. Company Reserves are estimated by GLJ at 57.9 Mstb proved producing oil, 2140 Mmcf proved producing natural gas, 4490 Mmcf total proved natural gas, 13.5 Mstb proved producing NGL's and 28.1 Mstb total proved NGL's. The Gordondale property produced an average of 69 Bbls/d of oil, 2319 Mcf/d of gas and 32 Bbls/d of NGL's totalling 333 BOEPD net to the Corporation during the fourth quarter of 1998 from 52 producing wells (30.3 net producing wells).

Grand Forks

The Grand Forks/Grassy Lake property is located in Townships 9 to 12, Ranges 11 to 13 W4M, approximately 90 kilometres west of Medicine Hat, Alberta and covers approximately 11,256 gross hectares (7,112 net hectares). Equatorial holds various working interests in the properties, the majority of which are in the 75% to 100% range. Several fields in the Grand Forks area produce oil from numerous Lower Cretaceous and Jurassic reservoirs. In addition to the currently producing oil reserves, GLJ assigned proven, nonproducing gas reserves to the Bow Island Formation in one of the wells. Company Reserves are estimated by GLJ at 673 Mstb proved producing oil reserves. The Grand Forks property produced an average of 443 Bbls/d of oil totalling 443 BOEPD net to the Corporation during the fourth quarter of 1998 from 45 producing wells (37.4 net producing wells).

Hays

The Hays property is located in Townships 13 to 16, Ranges 14 to 17 W4M, approximately 90 kilometres west of Medicine Hat, Alberta and covers approximately 9,727 gross hectares (8,232 net hectares). Equatorial holds various working interests in this property of which most of the producing wells are at 100% working interest. Production is achieved from a variety of zones including the Ellerslie, Arcs, Sawtooth and Lower Mannville. At least one well has been identified for tie-in for production from a non-producing Mannville zone. Other opportunities exist for reduction in operating costs and drilling of new exploration wells. Company Reserves are estimated by GLJ at 94.6 Mstb proved producing oil reserves, 124.5 Mstb total proved oil reserves, 479 Mmcf proved producing gas reserves, 3281 Mmcf total proved gas reserves and 49 Mstb proved producing NGL's reserves. The Hays property produced an average of 153 Bbls/d of oil, 314 Mcf/d of gas and two Bbls/d of NGL's totalling 186 BOEPD net to the Corporation during the fourth quarter of 1998 from eight oil wells and one gas well (6.6 net producing wells).

Provost

The Provost properties are located in east central Alberta, Townships 34 to 42, Ranges 4 to 14 W4M, approximately 200 kilometres southwest of Edmonton, Alberta and cover approximately 28,437 gross hectares (20,655 net hectares). In this area, the Corporation holds various interests from a 1.25 % gross overriding royalty interest to a 100 % working interest. Both oil, with a gravity of approximately 22°API, and gas are produced from the region. The major producing formations are the Viking, Lloydminster, Cummings, Dina and Colony and the average drilling depth in the area is approximately 915 metres. The gross land base is approximately 49,000 acres. The Provost area is a mature area with significant performance history and established infrastructure and a large number of wells have already been identified as having both proven and untested behind pipe zones. Company Reserves are estimated by Ryder Scott at 73 Mstb proved producing oil reserves, 84 Mstb total proved oil reserves, four Mmcf of proved producing gas reserves and 1233 Mmcf total proved gas reserves. The Provost property produced an average of 180 Bbls/d of oil and three Mcf/d of gas totalling 180 BOEPD net to the Corporation during the fourth quarter of 1998 from 27 producing wells (23.3 net producing wells).

Wauchope

The Wauchope property is located in Townships 06 to 07, Ranges 32 to 34 W2M approximately 130 kilometres southeast of Regina, Saskatchewan and covers approximately 1,495 gross hectares (1,475 net hectares). The Corporation holds a 100%working interest in the majority of the wells. This pool is developed through a number of horizontal wells and opportunities to increase production exist through various forms of remedial action in the horizontal well bores, including isolation of water productive portions of a well, which was drilled too low in the formation. In addition, further field development drilling can be considered in the future.

There are also a number of undrilled sections within the property. Company Reserves are estimated by GLJ at 226 Mstb proved producing oil reserves. The Wauchope property produced an average of 304 Bbls/d of oil totalling 304 BOEPD net to the Corporation during the fourth quarter of 1998 from 10 producing Alida wells (9.5 net producing wells).

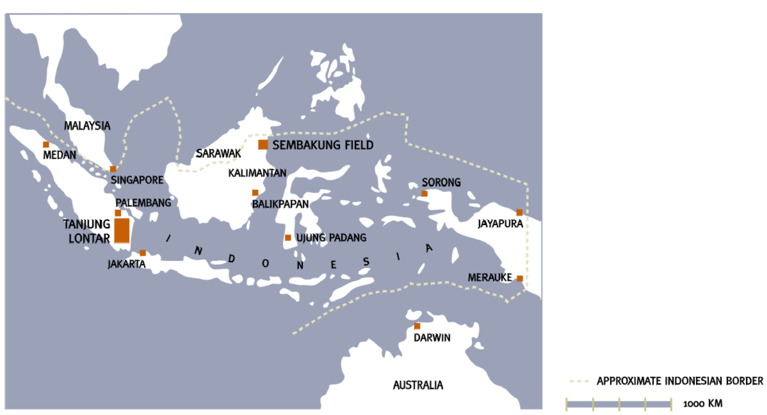
Arcola

The Arcola property is located approximately 200 kilometres southeast of Regina, Saskatchewan in Townships 6 to 9, Ranges 1 to 3 and W2M and covers approximately 2,415 gross hectares (1,488 net hectares). Equatorial holds various interests in this property from a 1.5% gross overriding royalty interest to a 100% working interest. Oil is produced from the Frobisher-Alida and Tilston Formations. Production from the area was established as early as 1972. Six wells were recently drilled in the Frobisher-Alida Formation. In addition, some wells have currently isolated legs which could be brought into production. Additional drilling within the field will also be considered to fully exploit the reserve base. Company Reserves are estimated by GLJ at 226 Mstb proved producing oil reserves. The Arcola property produced an average of 116 Bbls/d of oil, totalling 116 BOEPD net to the Corporation during the fourth quarter of 1998 from 12 producing wells (7.75 net producing wells).

Summary of Development Plans

Immediate plans for Equatorial's Canadian properties call for optimization of the producing wells, tie-in of suspended wells, installation of additional field compression and infill and exploration drilling towards the latter half of 1999. One major project will be the testing and subsequent tie-in of a shut-in gas well is estimated by Ryder Scott to have Company Reserves of four Bcf in the Pica area of northwest Alberta. Another major project will be the stimulation and tie-in of a number of shut-in gas wells in the Bigoray area. The Corporation is also participating in a three well horizontal re-entry program in the Kaybob South Triassic Unit No. 2. The first well in this program had initial flow rates of 2300 BOPD. Two additional wells are expected to be spud by mid-year. In addition, a major focus of Equatorial will be to reduce operating costs through efficient management on its properties as well as to divest certain minor properties.

Indonesia



GEPS TAC

Overview

On September 29, 1998, EQII purchased 100% of the issued and outstanding shares of EPS from FDM. EPS owns 80% of GEPS, which is a party to a TAC with Pertamina to develop the Sembakung oil field in northeast Kalimantan, Indonesia. The purchase price paid by EQII to FDM was US$ 18,500,000 with US$ 3,000,000 payable to the holders of the FDM Note 2, conditional upon production thresholds being attained.

The purchase price was financed with: (a) US$ 1,000,000 in cash; (b) the issuance of the FDM Note 1 and the FDM Note 2 for a collective amount of US$ 5,000,000; and (c) the assumption by EQII of US$ 15,500,000 of debt owed by FDM to Linyi and Ivanhoe. The FDM Note 2 is payable only if the Sembakung property achieves the following average production targets for a 30 day period in the following amounts:

(i) US$ 1,000,000 plus accrued interest at 7,500 BOPD;
(ii) an additional US$ 1,000,000 plus accrued interest 10,000 BOPD, and
(iii) an additional US$ 1,000,000 plus accrued interest at 12,000 BOPD.

The Linyi Note of US$ 5,298,000 and the Ivanhoe Note of US$ 8,388,500 were issued for the aggregate amount of debt assumed by EQII being US$ 15,500,000 less US$ 1,813,500 raised through the issuance of 5,516,130 Common Shares to Newstar and 3,483,870 Common Shares to New Crystal, respectively.

The Linyi Note and the Ivanhoe Note each bear interest at a rate of 10%, payable quarterly. The FDM Note 1, the FDM Note 2, the Linyi Note and the Ivanhoe Note are each guaranteed by Equatorial and are each secured through a pledge of all the issued and outstanding shares of EPS. In connection with the Gulf Acquisition, EQII repaid FDM Note 1. FDM Note 1 and FDM Note 2 were issued for US$ 2,000,000 and US$ 3,000,000, respectively, at an interest rate of prime plus 3%, payable quarterly. FDM Note 2 matures upon expiry of the GEPS TAC.

In connection with the purchase of an aggregate of 9,000,000 Common Shares by Newstar and New Crystal, the Voting Agreements were executed whereby all Common Shares currently owned by Newstar and New Crystal plus any additional Common Shares acquired by Newstar and New Crystal, including those issuable upon the exercise of the Special Warrants and the exercise of the Warrants underlying such Special Warrants, are subject to the Voting Agreements. See "Principal Holders of Securities". Newstar and New Crystal, under the Voting Agreements, separately agreed to vote such Common Shares as directed by Marshall Abbott, the President of Equatorial, and David Matheson, the Executive Vice-President and Chief Financial Officer of Equatorial, respectively, for a maximum period of three years in respect of all ordinary resolutions and certain extraordinary resolutions of holders of Common Shares. If either Mr. Abbott or Mr. Matheson leaves the Corporation, the other officer shall be granted the authority to vote the Common Shares subject to the departing officer's Voting Agreement. However, both Voting Agreements expire if both Mr. Abbott and Mr. Matheson leave the Corporation. Pursuant to the Gulf Acquisition if the holders of the Ivanhoe Note, Linyi Notes or FDM Notes convert their notes under certain events of default (see "Business and Properties of the Corporation - Western Canada - Gulf Acquisition"). In addition, the 9,000,000 Common Shares were issued subject to the Equity Agreements which imposed a hold period for such Common Shares with one-third of such Common Shares being subject to release on September 29 of each of 1999, 2000 and 2001. The Equity Agreements were amended in connection with the Gulf Acquisition to advance the date for the release of all such Common Shares to September 14, 1999.

History

Atlantic Richfield Corporation ("Arco") discovered the Sembakung oil field in 1975. Between 1975 and 1981 Arco drilled a total of 19 wells in the Sembakung field. During the early life of the field, peak production reached nearly 12,000 BOPD. In late 1982, Arco was forced to relinquish the field to Pertamina for failing to declare commerciality. The field was reactivated in 1984 and placed on production at an initial rate of approximately 10,000 BOPD. In the period from 1984 to 1994, when the field was issued as a TAC, Pertamina ran the field in depletion mode, performed no new drilling and maintained low production in the field.

After the field was taken over by GEPS, a program of evaluation, recompletion and new zone completion in the existing wells was implemented, and within eight months, production increased from approximately 2,900 BOPD to over 4,500 BOPD gross production at February 1996. The production level as of March, 1999 was 2,900 BOPD gross production. The planned second stage of development consists of a three-dimensional seismic survey, infill development drilling and a secondary recovery program using waterflood technology and is expected to commence by August, 1999 and be completed by late 2001. The Corporation estimates the gross capital program could cost up to US$ 41.6 million depending on the results of the seismic survey.

Reserves

The Sembakung oil field is located in northeast Kalimantan, Indonesia on the island of Borneo and is currently the most northerly productive field in that country. The field is comprised of a series of stacked deltaic reservoirs of the Miocene Tabul formation, in which some 33 separate reservoir zones are identified.

The field is very shallow with the upper reservoirs at 450 metres and the base of the currently productive zones at approximately one kilometre. The field has a number of discreet gas caps recognized from logging. The reservoir quality is excellent with porosities ranging from approximately 15% to 30% and permeability in the 200 to 1000 mD range. The crude oil is 37 degree API gravity with very low wax content and no sulphur.

Summary of Development Plans

Planning and evaluation is now underway to continue development of the Sembakung field. The Corporation is investigating options for drilling vertical wells. A variety of development possibilities exist including building a road, dredging a channel from a nearby river or using tracked vehicles designed for carrying heavy equipment across swampy areas.

The initial development plan is to drill up to 20 wells. This would bring the field well-spacing to approximately 50 acres. Based on the results of this drilling program, and tests to determine the applicability of water-flooding, a decision will be made to either proceed with water-flood installation or continue to infill and further down-space the field to capture the remaining recoverable reserves.

The existing producing wells have seen little maintenance over the past three years. It is proposed that all the wells will be evaluated to determine the potential for increasing oil production from the existing wells. In addition, the existing wells have been analyzed and a significant number of zones have been identified which have not been completed. These new zones, and some existing zones, will be perforated or reperforated to enhance production early in the program. A few wells have also been identified in which zones were originally tested with high oil cuts by Arco but were abandoned and plugged off. These plugs will be removed and these isolated zones, put into production, providing it is economic to do so.

In addition to the existing productive reservoirs, two deeper wells were drilled in the field by Arco. Both encountered gas and significant reservoir sands. The bulk of the wells in the field only penetrate to approximately 1,200 metres. Based on the existing two-dimensional seismic data, evidence is seen of intermediate and deeper depth untested reservoir potential. The Corporation intends to obtain Pertamina's approval of its development plans, including a three-dimensional seismic survey to facilitate development and delineation of the field.

Pilona TAC

Overview

On November 22, 1996, the Corporation acquired 100% of the shares of Antrim International Energy Inc. ("Antrim"), a private company then controlled by Mr. Marshall Abbott, with the issuance of 2,080,000 Common Shares and a cash payment of $70,000 to Mr. Abbott, representing a reimbursement of a deposit made, and certain expenses incurred, in connection with the acquisition of Pilona. The acquisition of Antrim was negotiated on an arms length basis and it was in connection with the acquisition of Antrim that Mr. Abbott assumed the position of President and Chief Executive Officer of the Corporation. Antrim's principal asset was the right to acquire 75% of the shares of Pilona, the holder of the Pilona TAC. The Corporation exercised Antrim's right to acquire 75% of Pilona and paid US$ 650,000 to the vendors of the Pilona shares, PT Petro Inti Loka Nusantara, a private Indonesian company controlled by K.A. Sjaiful Achmad and Harik Corporation, an unrelated private company incorporated in the British Virgin Islands (the "Pilona Vendors") and assumed a signing bonus of US$ 600,000 to Pertamina. The Corporation also issued 500,000 Common Shares, at an ascribed price of $2.00 per share to the Pilona Vendors in connection with the acquisition. All of the assets of Antrim were subsequently transferred to the Corporation and Antrim was wound up.

The remaining 25% of the Pilona shares were acquired by the Corporation on March 14, 1997 for an aggregate consideration of $2,300,000 which was paid to the Pilona Vendors by the issuance of 1,150,000 special warrants of the Corporation which have since been converted into Common Shares on a one for one basis at an ascribed value of $2.00 per share.

The Pilona TAC gives the Corporation an exclusive right to the end of the contract life to execute an oil field rehabilitation and exploitation program on the Tanjung Lontar, Sengkuang and Arahan - Banjarsari oilfields located approximately 100 kilometres southwest of the City of Palembang, South Sumatra.

History of the Pilona TAC

The three oilfields covered by the Pilona TAC were suspended due to the Japanese invasion during World War II and, after the war, Pertamina neglected these fields due to their relatively small size compared to its other operations in Indonesia. In 1985, Pertamina drilled three wells, two wells in Tanjung Lontar and one well in the Sengkuang oil field, all of which flowed oil and gas. All three oilfields are located in the Palembang Sub-Basin, which is the southeastern part of the South Sumatra Basin. Pertamina discontinued operations in 1986 due primarily to the decline of world oil prices.

The Corporation commenced initial development under the Pilona TAC in June 1997. The development plan for the Pilona TAC with Pertamina contemplated re-entering a number of previously drilled and suspended wells to re-establish production from the historically productive zones. The first two wells to be entered were the TL-30 and SKG-8 wells, drilled by Pertamina in 1985. The TL-30 well was placed on pump and currently produces approximately 40 Bbls/d gross of fluid with 32 Bbls of oil and eight Bbls of oil emulsion. The SKG-8 well was placed on production through natural flow, due to the gassy nature of the oil from a virgin reservoir; for the month of December 1998 the well flowed at approximately 28 BOPD gross of clean oil. Additional optimization is planned for both of these wells.

In addition to the two modern wells, five of the older wells were also re-entered in the Tanjung Lontar and Sengkuang fields. In Sengkuang, the SKG-5 well was successfully worked over. In Tanjung Lontar, four historical wells were re-entered of which only one, the TL-26 well, was able to sustain a productive volume of influx, which had an average production fluid rate in December 1998 of 120 Bbls/d gross, producing six to seven BOPD of oil. In the future additional efforts will be made to clean and circulate the other three wells in order to determine whether a sustained fluid rate can be achieved. In the Arahan-Banjarsari field, the ABS-46 well was cleaned, logged to 243 metres, placed on pump and had an average production fluid rate in December 1998 of approximately 120 Bbls gross of fluid per day with six Bbls of oil. In early 1998 two wells were drilled on the Tanjung Lontar field to a depth of 1500 metres of which only one is currently producing. The average production rate in December 1998 was approximately 40 BOPD gross. Further optimization of this zone is planned for the third quarter of 1999.

In the Arahan-Banjarsari field two drilling campaigns were undertaken. The first was a seven well program and the second was a five well program. From the first group, two oil wells were put on production and had an average production rate in December 1998 of an aggregate of 121 BOPD gross of oil. In the second phase of drilling, all five wells have been proven to be capable of oil production. The ABS-70 produced oil for a short time and is currently suspended awaiting further evaluation. The ABS-71 well was put on pump at over 100 BOPD gross and had an average production rate in February 1999 of 91 BOPD of oil. The third ABS 72 well had an average production rate in February 1999 of 26 BOPD gross of oil naturally flowing and in the future the well will be optimized and placed on a pump. The fourth well, ABS-73, is being prepared for testing. The fifth well, ABS-74, is on production under natural flow and had an average production rate in February 1999 of 180 BOPD gross.

Reserves

Effective January 1, 1999, the Corporation's management assigned 554 MStb of proven producing oil reserves to the Corporation's indirect interest in the Pilona TAC with an after-tax present value of US$ 3,967,000 based on escalating price and cost assumptions (as described in Note 2 in "Reserves") and using a discount factor of 15%. See "Business and Properties of the Corporation - Reserves". Based on constant oil prices realized at December 31, 1998, a write-down of $17,000,000 was taken against the carrying value of the Pilona TAC in 1998, of which approximately 88% is attributable to a management revision to Pilona TAC reserve volumes from 4,862 Mstb to 554 Mstb. See "Business and Properties of the Corporation - Reserves".

Summary of Development Plans

The Corporation is currently evaluating the results of the recent drilling program to determine the future potential for an additional drilling program on the Arahan-Banjasari field.

Production Sharing Arrangements

The Corporation's operations in Indonesia are conducted through contractual production sharing arrangements, or TAC's, with Pertamina pursuant to which the Corporation and its partners provide financing and technical expertise to conduct exploration, development and production activities in a specified geographic area (each, a "contract area"). Such arrangements are made in accordance with Law No. 44 Prp/1960 and Law No. 8/1971 of the Republic of Indonesia ("ROI"). TACs are signed by Pertamina as the holder of the gas mining authority granted by the ROI and are approved by the Indonesian Minister of Mines and Energy. See "Regulatory Environment - Indonesia".

The following table sets forth certain terms of the Corporation's TACs:

	GEPS TAC	**Pilona TAC**
Effective	1994	1996
Expiry	2014	2016 (1)
Capital expenditure obligation - total	US$ 34,000,000	US$ 2,700,000
Capital expenditure obligation - remaining	$0	$0
Commencement of domestic marketing obligation	payout of capital program	February, 2003
Investment credit	17%	15.83%
Post-cost recovery share to Corporation, after tax	15%	15%
Income tax rate	48%	44%
Non-sharable oil obligation	2,794 BOPD commencing May 1, 1994 declining at 14.3% per year (2)	None
Cost recovery	80% of gross revenue	80% (3) of gross revenue for first two years, reduced by 5% every two years to 65% after the sixth year of production
Unrecovered cost pools at December 31, 1998	US$ 358,000	US$ 7,790,627

Notes:

(1) Pertamina considers the Pilona TAC to cover a previously undeveloped contract area, and in accordance with all such TACs, would require expiry to occur after a three year period if no oil or gas is discovered in commercial quantities. The Pilona TAC received its formal "Declaration of Commerciality" on March 27, 1998.

(2) Pertamina and GEPS have specified this amount, by mutual agreement, as an amount of crude oil production which Pertamina will receive.

(3) Pilona cost recovery on previously unexplored deep zones is zero if those zones are not commercial. However, Pilona would be able to recover 140% of the initial expenditures if successful.

Reserves

GLJ and Ryder Scott evaluated the oil and natural gas reserves attributable to the Canadian petroleum and natural gas properties of the Corporation effective September 1, 1998. Ryder Scott evaluated the following properties: Boundary Lake, Eaglesham, Pica and Blueberry in northwest Alberta; Cypress, Shaunavon and Atlas in southwest Saskatchewan; a variety of properties in northeast Alberta; Frog Lake/Beacon Hill, Manyberries, Medicine Hat, Turin, Winnifred, Winnifred South and a variety of other smaller properties in southeast Alberta; Carrot Creek, Niton, Tomahawk, Two Creek/Meekwap and Windfall/Kaybob in west central Alberta; Craigmyle, Drumheller, Provost and south Stanmore in east central Alberta. Cygnet and Nevis in central Alberta; and Gilby, Medicine River and Willesden Green in the Gilby area. In southeast Saskatchewan Ryder Scott evaluated the Fertile, Hitchcock and Parkman properties and lastly in northeast British Columbia the Kyklo and a variety of other properties were studied. GLJ evaluated the following properties: Gordondale, Bilawchuck, Elmworth, Warwick, Hays, Grand Forks/Grassy, Berry, Kirkpatrick, Malmo, Wauchope, Arcola, Kaybob South Triassic Unit 2 and Bigoray. GLJ evaluated the oil and natural gas reserves attributable to the Indonesian petroleum and natural gas properties of the Corporation effective January 1, 1999 except the Tanjung Lontar property which has been evaluated by management of the Corporation. The following tables set forth certain information relating to the oil, gas and NGL's reserves associated with such properties and the present value of the future net cash flows associated with such reserves. **The information set forth below is derived from the GLJ Canada Report, the Ryder Scott Report and the GLJ Indonesia Report. All evaluations of future net cash flows are stated prior to any provision for income taxes, indirect costs and future site restoration costs and after deduction of future capital expenditures. It should not be assumed that the future net cash flows shown below are representative of the fair market value of the relevant reserves.** GLJ relied upon information provided by the Corporation and Pertamina in preparing the GLJ Indonesia Report. Ryder Scott and GLJ relied upon information provided by Gulf Canada in preparing the Ryder Scott Report and the GLJ Canada Report, respectively. See "Business and Properties of the Corporation - Reserves".

Escalating Dollar Economics

	Company Reserves			**Present worth discounted at**			
	Oil	**Gas**	**NGL's**	**0%**	**10%**	**15%**	**20%**
	(Mbbls)	(Mmcf)	(Mbbls)	($000's)	($000's)	($000's)	($000's)
WESTERN CANADA [1]							
Proved Producing							
GLJ	2,636	32,157	1,054	73,739	51,564	45,066	40,182
Ryder Scott	641	7,832	74	19,670	11,784	9,954	8,660
Total Proved Producing	3,277	39,989	1,128	93,409	63,348	55,020	48,842
Proved Undeveloped							
GLJ	400	8,318	166	15,478	9,944	8,421	7,277
Ryder Scott	11	12,303	2	11,744	6,031	4,492	3,406
Total Proved Undeveloped	411	20,621	168	27,222	15,975	12,913	10,683
Total Proved							
GLJ	3,036	40,475	1,220	89,217	61,508	53,487	47,459
Ryder Scott	652	20,135	76	31,414	17,815	14,446	12,066
Total Proved	3,688	60,610	1,296	12,0631	79,323	67,933	59,525
Probable							
GLJ	1,007	27,713	1,276	55,211	31,319	25,371	21,196
Ryder Scott	62	2,836	17	4,054	2,069	1,613	1,307
Total Probable	1,069	30,549	1,293	59,265	33,388	26,984	22,503
Total Proved and Probable Additional Reserves							
GLJ	4,043	68,188	2,496	14,4428	92,827	78,858	68,655
Ryder Scott	714	22,971	93	35,468	19,884	16,059	13,373
Total Proved and Probable Additional Reserves	4,757	91,159	2,589	179,896	112,711	94,917	82,028
Total Proved Plus Half Probable Additional Reserves[11]	4,223	75,885	1,943	150,264	96,017	81,425	70,777
TANJUNG LONTAR [2]							
Proved Producing	554	-	-	6,632	4,638	3,967	3,481
Total Proved	554	-	-	6,632	4,638	3,967	3,481

	Company Reserves			Present worth discounted at			
	Oil	**Gas**	**NGL's**	**0%**	**10%**	**15%**	**20%**
	(Mbbls)	(Mmcf)	(Mbbls)	($000's)	($000's)	($000's)	($000's)
SEMBAKUNG (3)							
Proved Producing	7,056	-	-	13,047	9,108	7,849	6,874
Proved Undeveloped	6,451	-	-	30,905	20,755	17,308	14,566
Total Proved	13,507	-	-	43,952	29,863	25,157	21,440
Probable	22,850	-	-	124,164	59,323	42,460	30,873
Total	36,357	-	-	168,116	89,186	67,617	52,313
Total Proved Plus Half Probable Additional Reserves[11]	24,932	-	-	106,034	59,525	46,387	36,877
ALL PROPERTIES TOTALS							
Proved Reserves							
Proved Producing	10,887	39,989	1,128	113,088	77,094	66,836	59,197
Proved Undeveloped	6,862	20,621	168	58,127	36,730	30,221	25,249
Total Proved	17,749	60,610	1,296	171,215	113,824	97,057	84,446
Probable additional reserve	23,919	30,549	1,293	183,429	92,711	69,444	53,376
Total proved plus probable additional reserves	41,668	91,159	2,589	354,644	206,535	166,501	137,822
Total Proved Plus Half Probable Additional Reserves[11]	29,709	75,885	1,943	262,930	160,180	131,779	111,134

Constant Dollar Economics

	Company Reserves			Present worth discounted at			
	Oil	**Gas**	**NGL's**	**0%**	**10%**	**15%**	**20%**
	(Mbbls)	(Mmcf)	(Mbbls)	($000's)	($000's)	($000's)	($000's)
WESTERN CANADA (1)							
Proved Producing							
GLJ	2,498	33,171	1,141	57,545	43,284	38,861	35,442
Ryder Scott	596	7,305	73	13,982	9,279	8,047	7,136
Total Proved Producing	3,094	40,476	1,214	71,527	52,563	46,908	42,578
Proved Undeveloped							
GLJ	366	6,678	63	9,154	5,388	4,286	3,441
Ryder Scott	11	12,084	2	6,890	3,595	2,675	2,016
Total Proved Undeveloped	377	18,762	65	16,044	8,983	6,961	5,457
Total Proved							
GLJ	2,864	39,849	1,204	66,699	48,672	43,147	38,883
Ryder Scott	607	19,389	75	20,872	12,874	10,722	9,152
Total Proved	3,471	59,238	1,279	87,571	61,546	53,869	48,035

	Company Reserves			Present worth discounted at			
	Oil	**Gas**	**NGL's**	**0%**	**10%**	**15%**	**20%**
	(Mbbls)	(Mmcf)	(Mbbls)	($000's)	($000's)	($000's)	($000's)
Probable							
GLJ	996	26,948	1,277	37,704	23,369	19,442	16,575
Ryder Scott	63	2,821	17	2,750	1,546	1,237	1,019
Total Probable	1,059	29,769	1,294	40,454	24,915	20,679	17,594
Total Proved and Probable Additional Reserves							
GLJ	3,860	66,797	2,481	104,403	72,041	62,589	55,458
Ryder Scott	670	22,210	92	23,622	14,420	11,959	10,171
Total Proved and Probable Additional Reserves(11)	4,530	89,007	2,573	128,025	86,461	74,548	65,629
TANJUNG LONTAR (2)							
Proved Producing	554	-	-	4,590	3,299	2,856	2,500
Total Proved	554	-	-	4,590	3,299	2,856	2,500
SEMBAKUNG (3)							
Proved Producing	6,133	-	-	7,817	5,937	5,287	4,763
Proved Undeveloped	7,027	-	-	21,411	14,171	11,691	9,706
Total Proved	13,160			29,228	20,108	16,978	14,469
Probable	22,650	-	-	74,657	35,211	24,655	17,314
Total	35,810	-	-	103,885	55,319	41,633	31,783
ALL PROPERTIES TOTALS							
Proved Reserves							
Proved Producing	9,781	40,476	1,214	83,934	61,799	55,051	49,841
Proved Undeveloped	7,404	18,762	65	37,455	23,154	18,652	15,163
Total Proved	17,185	59,238	1,279	121,389	84,953	73,703	65,004
Probable	23,709	29,769	1,294	115,111	60,126	45,334	34,908
Total Proved Plus Probable Additional Reserves	40,894	89,007	2,573	236,500	145,079	119,037	99,912
Total Proved Plus Half Probable Additional Reserves(11)	29,040	74,123	1,926	178,945	115,016	96,370	82,458

Notes:

(1) Derived from the GLJ Canada Report prepared by GLJ on February 16, effective September 1, 1998 and the Ryder Scott Report prepared by Ryder Scott on February 2, 1999, effective September 1, 1998.

(2) Derived from a report prepared by Corporation's management as of March 15, 1999 effective January 1, 1999, assuming US $300,000 in capital expenditures (1999 - US $175,000, 2000 - US $125,000) using Table B price assumptions as set out below.

(3) Derived from the GLJ Indonesia Report Prepared by GLJ on January 1, 1999 effective January 1, 1999.

(4) "Proved" reserves are those reserves estimated as recoverable under current technology and existing economic conditions in the case of constant price and cost assumptions and anticipated economic conditions in the case of escalated price and cost assumptions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

(5) "Proved producing" reserves are those proved reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reason for the current non-producing status is the choice of the owner rather than the lack of markets or some other reason. An illustration of such a situation is where a well or zone is capable of production but is shut-in because its deliverability is not required to meet contract commitments.

(6) "Proved undeveloped" reserves are proved reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units, which are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

(7) "Probable Reserves" are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future

recovery. Probable reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery process which can be reasonably expected to be instituted in the future.

(8) The escalated prices and costs case assumes the continuance of laws and regulations in effect on the date of the GLJ Report. Estimates of capital expenditures and operating costs were deducted in arriving at future net cash flow. Capital expenditures (undiscounted) associated with developing the Corporation's existing reserve properties to achieve the future proved plus probable additional net revenues have been estimated by GLJ to be $74,561,000 net to the Corporation.

(9) The Tanjung Lontar and Sembakung reported values were converted from US$ to $Cdn at the December 31, 1998 rate of 1.5333 $ per US$.

(10) The following Table A, used in the GLJ Canada Report and the Ryder Scott Report, and Table B used, in the GLJ Indonesia Report, are the crude oil and natural gas price forecasts based on escalated pricing as of July 1, 1998, used in the GLJ Canada Report and the Ryder Scott Report.

(11) **The cash flows associated with development and production of Probable Reserves have been discounted by 50% to allow for risk associated with the recovery of Probable Reserves.**

PRICE FORECAST PROVIDED BY GULF CANADA (TABLE A)

								Alberta Natural Gas Liquids		
Year	**US$/$Cdn**	**West Texas Intermediate Crude Oil at Cushing Oklahoma US$/bbl**	**Brent Blend Crude Oil FOB North Sea US$/bbl**	**Light, Sweet Crude Oil at Edmonton $Cdn/bbl**	**Medium Crude Oil at Hardisty $Cdn/bbl**	**Heavy Crude Oil at Hardisty $Cdn/bbl**	**Medium Crude Oil at Cromer $Cdn/bbl**	**Edmonton Propane $Cdn/bbl**	**Edmonton Butane $Cdn/bbl**	**Edmonton Pentanes Plus $Cdn/bbl**
1999	0.700	17.50	16.00	23.75	18.75	13.75	20.25	13.75	14.75	24.25
2000	0.720	19.00	17.50	25.25	20.75	17.25	21.75	14.25	15.25	25.25
2001	0.740	20.50	19.00	26.50	22.00	19.00	23.00	15.50	16.50	26.50
2002	0.740	21.75	20.25	28.25	23.75	20.75	24.75	17.25	18.25	28.25
2003	0.740	22.00	20.50	28.75	24.25	21.25	25.25	17.75	18.75	28.75
2004	0.740	22.50	21.00	29.25	24.75	21.75	25.75	18.25	19.25	29.25
2005	0.740	23.00	21.50	30.00	25.50	22.50	26.50	19.00	20.00	30.00
2006	0.740	23.50	22.00	30.50	26.00	23.00	27.00	19.50	20.50	30.50
2007	0.740	24.00	22.50	31.25	26.75	23.75	27.75	20.00	21.25	31.25
2008	0.740	24.50	23.00	32.00	27.50	24.50	28.50	20.50	22.00	32.00
2009+	0.740	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year

Year	**Henry Hub US$/mmbtu**	**AECO-C Spot $Cdn/mmbtu**	**Average Price $/mmbtu**	**TCGS $/mmbtu**	**Pan-Alberta $/mmbtu**	**ProGas $/mmbtu**	**SaskEnergy $/mbtu**	**Sumas Spot US$/mmbtu**	**CanWest Plant Gate $/mmbtu**	**Spot Field Gate $/mmbtu**
1999	2.30	2.35	2.25	2.25	2.25	2.25	2.25	1.75	2.15	1.70
2000	2.30	2.20	2.05	2.05	2.05	2.05	2.05	1.70	2.05	1.55
2001	2.35	2.45	2.30	2.30	2.30	2.30	2.30	1.90	2.30	1.80
2002	2.45	2.45	2.30	2.30	2.30	2.30	2.30	1.90	2.30	1.80
2003	2.55	2.60	2.45	2.45	2.45	2.45	2.45	2.00	2.45	1.95
2004	2.65	2.70	2.60	2.60	2.60	2.60	2.60	2.15	2.60	2.10
2005	2.70	2.85	2.70	2.70	2.70	2.70	2.70	2.20	2.70	2.20
2006	2.75	2.90	2.75	2.75	2.75	2.75	2.75	2.25	2.75	2.25
2007	2.80	2.95	2.80	2.80	2.80	2.80	2.80	2.30	2.80	2.35
2008	2.85	3.00	2.90	2.90	2.90	2.90	2.90	2.35	2.90	2.45
2009+	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year

GLJ SEMBAKUNG PRICE FORECAST (TABLE B)

Year	West Texas Intermediate Crude Oil at Cushing Oklahoma US$/bbl	Wellhead Crude Oil Price $US/bbl
1999	15.00	14.50
2000	17.00	17.00
2001	19.00	19.00
2002	20.00	20.00
2003	20.50	20.50
2004	21.00	21.00
2005	21.50	21.50
2006	22.00	22.00
2007	22.50	22.50
2008	22.75	22.75
2009	23.25	23.25
2010+	+2.0%/year	+2.0%/year

(11) This means total Proved reserves volumes and values plus 1/2 of total Probable reserves volumes and values.

(12) The constant price assumptions assume the continuance of current laws, regulations and operating costs in effect on the date of the GLJ Report and the Ryder Scott Report.

(13) The GLJ Canada Report and the GLJ Indonesia Report was based upon data supplied by Gulf Canada and the Corporation with respect to interests owned, royalties payable and contractual commitments. No field inspection was conducted. Abandonment costs and salvage costs were not included in the evaluation.

(14) The Ryder Scott Report was based upon data supplied by Gulf Canada with respect to interests owned, royalties payable and contractual commitments. No field inspection was conducted. Abandonment costs and salvage costs were not included in the evaluation.

The GLJ Canada Report, the GLJ Indonesia Report and the Ryder Scott Report are available for examination during normal business hours at the principal business office of the Corporation, in Calgary, Alberta, or at the offices of Bennett Jones, 4500, 855 - 2nd Street S.W., Calgary, Alberta, T2P 4K7 during the period of distribution and for a period of 30 days thereafter and are available for examination at the offices of the Alberta Securities Commission during ordinary business hours at any time.

Undeveloped Land Holdings

The table below summarizes the Corporation's approximate undeveloped oil and natural gas land holdings as at March 30, 1998.

	Gross Hectares	Net Hectares
Canada	264,959	162,148
Indonesia[1]	4,000	4,000
TOTAL	268,959	166,148

Notes:

(1) The Corporation holds its Indonesia undeveloped acreage indirectly through Pilona, a wholly owned subsidiary of EQII and through GEPS, an indirect 80% owned subsidiary of EQII.

(2) All undeveloped land capable of production are within 15 kilometers of pipeline facilities.

Production History

The following table sets forth certain production information relating to the Corporation's oil interests for the period indicated. As at December 31, 1998, the Corporation had no natural gas production. All information is stated prior to the deduction of Government Take. See "Business and Properties of the Corporation - Production History".

	Year Ended December 31, 1998
Average daily oil and NGL production (Bbls/d)	863
Total oil and NGL production (Bbls)	314,868

Oil and Natural Gas Wells

The following table sets forth the number and status of wells in which Equatorial has a working or a royalty interest, as at February 26, 1999, which are producing or which the Corporation considers to be capable of production:

	Producing				Shut-in[1]			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]
Indonesia								
Pilona TAC	11	11	0	0	13	0	13	0
GEPS TAC	15	15	0	0	2	2	0	0
Total Indonesia	26	26	0	0	15	2	13	0
Western Canada								
Kaybob South Triassic Unit Two	28	8.4	0	0	4	1.2	3	1.5
Bigoray	0	0	16	12.2	0	0	15	12
Grand Forks Area	58	43.3	1	1	15	12.4	2	0.5
S.E. Saskatchewan	27	19.25	0	0	3	2.2	0	0
Central AB Gas	1	0.3	95	73	2	0.8	46	32
Remaining Western Canada Properties	224	105	155	62	110	54	136	48
Total Western Canada	338	176	267	148	134	70	217	94
Total	364	202	267	148	149	72	215	94

Notes:

(1) "Shut-in" wells means wells which have encountered and are capable of producing oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other operational engineering reasons.

(2) "Gross" wells are defined as the total number of wells in which the Corporation has an interest.

(3) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by the Corporation's percentage working interest therein.

(4) All shut in wells are within 15 kilometers of pipeline facilities.

Drilling History

The Corporation did not participate in the drilling of exploratory or development wells prior to 1998 except as set out below. The following table sets forth the gross and net exploratory and development wells in which the Corporation participated during the periods indicated.

	Year Ended December 31, 1998	
	Gross(1)	Net(2)
Development		
Oil	5	5
Natural Gas	--	--
Dry	5	5
Total Development	10	10
Total(3)	10	10

Notes:

(1) "Gross" wells means the number of wells in which the Corporation has an interest.

(2) "Net" wells means the aggregate of the numbers obtained by multiplying each gross well by the Corporation percentage working interest therein.

(3) The Corporation drilled two gross dry exploratory wells (one net dry exploratory well) in 1997 on Australian properties in which the Corporation currently retains a nominal overriding royalty interest.

Capital Expenditures

The following table summarizes capital expenditures made by Equatorial in exploration and development drilling, production facilities and other equipment for the periods indicated.

	Year Ended December 31		
	1998	1997	1996
	$	$	$
Indonesia			
Capital development program	5,332,850	3,007,172	-
Pre-production costs	3,008,029	2,191,202	-
Ancillary acquisition costs - Pilona	347,458	172,569	-
	8,688,337	5,370,943	-
Exploration drilling – Australia	42,062	486,567	1,114,219
Onshore study – Trinidad	3,750	311,560	-
Acquisition costs - Other	26,456	-	25,000
Office equipment	112,271	71,892	35,633
	8,872,876	6,240,962	1,174,852

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion of Results from Operations

The following discussion of the Corporation's financial position should be read in conjunction with the Consolidated Financial Statements and related notes contained elsewhere in this prospectus.

The Corporation's activities relate to oil and gas exploration and development. The Corporation follows the "full-cost" method of accounting for oil and gas operations whereby all exploration costs are capitalized until commencement of production. The costs are then amortized on the unit-of-production basis.

The Corporation began reflecting its operating results on November 30, 1995, with material results commencing on May 23, 1996. Administrative expenses comprise a large portion of activity in the Consolidated Statement of Operations since early 1996, with a breakdown as follows:

	Year Ended December 31		
	1998	1997	1996
	($)	($)	($)
Salaries	346,937	209,192	-
Consulting fees	337,831	420,755	259,211
Travel	224,361	126,270	42,372
Shareholder communication	169,055	120,314	61,592
Legal, audit and tax	158,380	132,550	80,953
Office expense	93,504	98,106	38,952
Office rent	56,927	29,553	22,859
Public listing	36,219	48,125	10,410
Total	1,423,214	1,184,865	516,349

Year Ended December 31, 1998 Compared with the Year Ended December 31, 1997

The Corporation incurred a loss of $24,364,969 or $0.82 per share for the year ended December 31, 1998, as compared to a loss of $1,053,371 or $0.07 per share for the comparative period in the prior year. Of 1998 expenses, 71% relate to the write-down of the Corporation's Indonesian, Australian and Trinidad properties, 9% to depletion and depreciation, 11% to operating costs on initial Indonesian oil deliveries, with the balance relating primarily to start-up administration expenses in the Corporation's Calgary head office.

Revenue and operating expenses all related to the Corporation's Indonesian oil and gas operations, which commenced in 1998.

The Corporation purchased EPS and its 80% owned subsidiary GEPS in late September 1998. Accordingly, oil sales from GEPS's producing Indonesian TAC from October 1, 1998 to December 31, 1998 were 261,456 Bbls (2,842 Bbls/d). Prices for this period averaged $17.40 ($11.28 U.S.) per Bbl.

The Corporation also holds a producing TAC through an indirect wholly owned subsidiary, Pilona. The Pilona TAC commenced deliveries of Indonesian oil to Pertamina on May 15, 1998. To December 31, 1998, the Pilona TAC sold 53,412 Bbls (232 Bbls/d) at prices that averaged $18.05 ($11.94 U.S.) per Bbl.

Operating expenses for 1998, substantially all of which relate to operating losses incurred by the newly acquired GEPS TAC, exceeded revenues by $255,896. The loss was attributable to a combination of low oil prices and fixed contractual GEPS operating arrangements entered into prior to the Corporation acquiring an interest in the TAC. An analysis of the write-down of petroleum and natural gas interests is as follows:

Indonesia	$ 17,000,000
Australia	1,781,084
Trinidad	315,310
	$ 19,096,394

Management has reviewed the December 31, 1998 carrying value of the Corporation's Indonesian full cost properties and has determined that a write-down of $17,000,000 is required, approximately 88% of which is attributable to a management revision of proved Pilona TAC reserve volumes from 4,862,200 Bbls to 554,000 Bbls, with the balance attributable to low year end crude oil prices. The Corporation also subjected the costs related to the GEPS TAC to a ceiling test calculation which indicated that, based on December 31, 1998 oil prices, an additional ceiling test writedown of $19,000,000 would be necessary. Under the provision of the CICA guideline for full cost accounting in the oil and gas industry, the Corporation has chosen to not record this write-down because the costs relate principally to the acquisition of EPS, effective September 14, 1998 (within 24 months of year-end).

In 1998 management also performed a comprehensive review of its Australian geological and geophysical data and decided to terminate its joint venture activities in Australia. The Corporation retains nominal overriding interests, but the joint venture had discovered no significant hydrocarbons to date. Accordingly, the carrying value of the Australian properties has been reduced to $50,000 which represents the estimated net realizable value of the Corporations' Australian tax pools.

The 20% increase in the overall administrative expenses in the 1998 fiscal year , as compared to the amounts for the corresponding 1997 period, is attributable to a full year of Calgary head office expenses, as compared to ten months in the prior year. Seventy percent of the increase is attributable to increases in salaries and travel.

Forty eight percent of administrative expenses are attributable to salaries and consulting fees in 1998 as compared to 53% in the corresponding prior year period.

Salaries for 1998 include those of four full-time officers and one full time administrative assistant. An $18,691 executive placement fee was paid and also included in salaries in 1998. Third quarter 1997 salaries include the salaries of the president, his administrative assistant and one full time officer. The Corporation established a Calgary office in March 1997 and commenced hiring full time salaried employees to reduce its reliance on consulting staff persons. Accordingly, consulting fees decreased by 20% in the fiscal year 1998 over the corresponding 1997 period.

Travel costs of $224,361 in the 1998 fiscal year increased 77% from the corresponding period in 1997. Sixty percent, or $58,473 of the increase between corresponding periods, is attributable to Corporation directors' travel to a Jakarta, Indonesia board of directors' meeting, with the balance of the increase being travel associated with securing financing for the Corporations various projects. The balance of the costs in both years relate to travel activities associated with senior officers and directors directly pursuing oil and gas opportunities outside of North America to the extent that they cannot be capitalized to the Corporation's ongoing projects.

Financial Resources and Liquidity

To date, cash generated by the Corporation's financing activities has funded the Corporation's operations, capital expenditures and working capital requirements.

Effective September 14, 1998, the Corporation acquired 100% of the issued and outstanding common shares of EPS from FDM. EPS owns 80% of GEPS, which holds a TAC for the Sembakung oilfield in northeast Kalimantan, Indonesia.

Net assets acquired:

Petroleum and natural gas interests	$33,952,928
Working capital	861,834
Asset held for resale (drilling rig)	918,720
Deferred income taxes	(6,504,407)
	29,229,075

Consideration given:

Long-term debt	$24,006,000
9,000,000 Common Shares of the Corporation	2,790,000
Amount to be paid in cash	639,853
Cash paid	891,347
Closing expenses	901,875
	29,229,075

In 1998, the Corporation raised $3,712,550 by way of a private placement of 6,750,090 flow-through Common Shares at $0.55 per share. The flow-through Common Shares require the renunciation of resource expenditure deductions for Canadian income tax purposes to investors in accordance with Canadian income tax legislation. As at December 31, 1998, a total of $3,712,550 of Canadian Exploration Expense has been renounced to shareholders. The costs that are required to be incurred to support the renunciation will be incurred in 1999. Also in 1998, the Corporation raised $2,000,000 by way of the issuance of 2,000 Convertible Debentures which pay quarterly interest at 10% at the end of each calendar quarter and mature on November 21, 2003. Each Convertible Debenture is convertible into 2,800 Common Shares, 2,456 Common Shares or 2,188 Common Shares at any time before November 20, 2001, November 20, 2002 and November 20, 2003, respectively. The Corporation has a right to redeem the Convertible Debentures for Common Shares after November 20, 2000 if the Common Shares trade at a price per share in excess of $1.00 for 20 consecutive days. The Convertible Debentures are secured by a pledge of the shares of Pilona and an assignment of certain accounts receivable in Pilona. In connection with this financing, a commission of 2% was paid and Common Share Purchase Warrants to acquire 300,000 Common Shares for two years at $0.35 per share were issued to organizations controlled by two directors of the Corporation. 150,000 Common Share Purchase Warrants were exercised prior to December 31, 1998. Total financing costs for all equity and debt financings during the 1998 fiscal year were $485,313.

Comparative expenditures in petroleum and natural gas interests were as follows:

	Year Ended December 31		
	1998	1997	1996
	$	$	$
Indonesia			
Capital development program	5,332,850	3,007,172	-
Pre-production costs	3,008,029	2,191,202	-
Ancillary acquisition costs - Pilona	347,458	172,569	-
	8,688,337	5,370,943	-
Exploration drilling – Australia	42,062	486,567	1,114,219
Onshore study – Trinidad	3,750	311,560	-
Acquisition costs - Other	26,456	-	25,000
Office equipment	112,271	71,892	35,633
	8,872,876	6,240,962	1,174,852

Year 2000 Issue

As a petroleum exploration and production entity with less than a three years operating history, the Corporation has had an opportunity to purchase computerized systems which are year 2000 compliant. Consequently, the Corporation's Canadian and Indonesian systems are either year 2000 compliant, or capable of timely remediation.

However, the Corporation is exposed to risk of failure of computerized systems of its key business associates, such as customers, suppliers, utilities, government agencies and other third parties. In the event that significant failure occurs in the activities of these business associates, it could have a material affect on the Corporation's operations and financial results. While the Corporation can develop contingency plans to cope with these concerns, there can be no assurance that the Corporation will not experience unanticipated negative consequences or material costs caused by undetected errors or defects in the technology used by third party business associates.

Senior management of the Corporation is currently developing contingency plans that will provide for appropriate responses to any operational interruptions that may be associated with year 2000 failures. The contingency plans will provide guidelines intended to reduce the impact to the Company and its personnel of any failure of third party systems due to year 2000 issues, and will be completed by the third quarter of 1999.

Canada

The Corporation recently purchased year 2000 compliant computer systems for its Calgary head office and field systems associated with operating the recent Gulf Acquisition remain largely manual. The Corporation will be communicating with its field suppliers and operators in the second and third quarter of 1999 to secure their commitment to uninterrupted field operations through the early year 2000 period.

Indonesia

The Corporation's risk in Indonesia is primarily with the systems of Pertamina, the Indonesian national oil and gas corporation, and secondarily with the systems of its Indonesian suppliers.

Under the terms of the Corporation's TAC's, the Corporation is responsible for the maintenance of the technical and financial system for all TAC activities. At the present time the Corporation has determined that these systems are year 2000 compliant.

The Corporation has a risk in Indonesia relating to the adequacy of the computerized Pertamina system for the timely payment of invoices. Management will work closely with Pertamina to develop a contingency plan by the third quarter of 1999 that will ensure continued timely payment for its oil in the year 2000. As in Canada, the Corporation will be communicating with its field suppliers and operators in the second and third quarter of 1999 to secure their commitment to uninterrupted field operations through the early year 2000 period.

To date the Corporation has expended nominal amounts on year 2000 contingency planning and expects to expend nominal amounts prior to December 31, 1999. The Corporation believes the above plan can be accomplished through dedication of management time and the use of external consultants, if required.

Year Ended December 31, 1997 Compared with the Year Ended December 31, 1996

The Corporation incurred a loss of $1,053,371, or $0.07 per share, for the year ended December 31, 1997, as compared to a loss of $521,660, or $0.07 per share, for the comparative period in the prior year. This 102% increase in the loss consists entirely of start-up administration expenses in the Corporation's Calgary head office. These additional administrative expenses were required to support the Pilona TAC and the expanded scope of the Corporation's International oil and gas operations. Consulting fees include $221,307 paid to two company officers and four consultants, $105,530 paid to various consultants directly pursuing oil and gas opportunities outside of North America and $93,918 to other external technical and financial service providers. Salaries include the president's salary for the full year, two full-time officers hired during the year and one full-time administrative assistant.

Travel costs of $126,270 increased 198% from the corresponding one-year period in 1996, 85% of the incremental costs to travel activities associated with senior officers and directors directly pursuing oil and gas opportunities outside of North America. The balance of the increase is travel associated with administering and financing the Corporation's Indonesian interests to the extent that it is not directly chargeable to those interests. Over half of the 69% increase in legal, audit and tax expense, over the corresponding 1996 period, is a result of accruing 1996 and 1997 audit fees in the 1997 year and the balance of the increase is attributable to legal fees, which reflected an increase in general activity in the year. The increase in shareholder communication costs from the amount expended in the 1996 year is attributable to $40,000 in incremental printing costs associated with the Corporation's first full year of statutory mailings and $17,000 in costs associated with preparing an investor relations multi-media presentation.

Financial Resources and Liquidity

Total funds from financing activities were $18,206,784. Two private placements of special warrants were completed during 1997 for cash proceeds of $16,599,528, net of issue costs of $1,187,972. These special warrants were exercised for Common Shares in December 1997. A third $2,300,000 private placement of special warrants was completed as consideration for the purchase of the Corporation's remaining 25% interest in Pilona. These special warrants were also exercised in December, 1997 into Common Shares. The funds raised by the Corporation's equity issues in 1997 were applied to finance operating losses of $1,053,371.

Year Ended December 31, 1996

The Corporation was inactive during 1995. Accordingly, results of operations for the year ended December 31, 1996 have not been compared with results of operations for the year ended December 31, 1995.

The Corporation incurred a net loss of $521,660, or $0.07 per share, for the year ended December 31, 1996. This loss is comprised of "start-up" general and administrative expenses, of which $259,211, or 49.7%, is represented by fees paid to consultants. Of the remaining $262,449 comprising the loss, legal and audit fees were $80,953, or 15.5 % of the total, while shareholder communication expenses were $61,592, or 11.8% of the loss.

Financial Resources and Liquidity

During 1996, the Corporation issued 3,520,000 Common Shares for net cash proceeds of $2,720,400, including $2,040,000 received on the exercise of stock options as detailed below. 2,520,000 Common Shares were issued at $0.27 per Common Share in a private placement for net proceeds of $680,400. Certain officers and employees also exercised incentive stock options and acquired 1,000,000 Common Shares at $2.04 per share for cash proceeds of $2,040,000.

On November 22, 1996, the Corporation acquired 75% of Pilona by acquiring 100% of the issued and outstanding common shares of Antrim and exercising a right held by Antrim to purchase 75% of Pilona. The Corporation paid $5,932,339 to acquire Antrim and 75% of Pilona as follows:

Purchase of Antrim	
2,080,000 Common Shares issued at an ascribed value of $1.55 per share	$3,224,000
Cash	35,339
	3,259,339
Purchase of 75% of Pilona	
500,000 Common Shares issued at an ascribed value of $2.00 per share	1,000,000
Cash (US$ 1,150,000)	1,539,160
Accrued education and training bonus (US$ 100,000)	133,840
Total Cost	$5,932,339

The Corporation also agreed to pay contingent cash consideration of US$ 450,000 for Pilona, represented by 11 installments of US$ 40,000 per month following the month in which commercial production from the Pilona TAC is achieved and one installment of US$ 10,000 in the month following the 11th installment of $40,000 in the form of a "net profits interest". Following commencement of commercial production, a minimum installment of US$ 15,000 is required to be paid to satisfy the "net profits interest". Net profits interest is defined as all revenues, receipts and income received by Pilona in a particular month solely from the Pilona TAC, regardless of the month in which they accrue, less all operating costs and expenses, general and administrative expenses, capital expenses and interest and principal payments, solely attributable to the Pilona TAC and paid in such month regardless of the month in which they accrue. If actual net profits are insufficient to meet the monthly obligations, the unpaid balance shall accrue and be paid in subsequent months.

In December, 1996, the Corporation also issued notes bearing interest at a rate of 8% per annum, which provided the Corporation with an additional $685,300 (US$ 500,000) to fund part of the acquisition cost of 75% of Pilona, which notes were paid in full on February 20, 1997. The note holders also received a bonus of $68,530 (equal to 10% of the principal amount of the notes). The total cash proceeds of $3,405,700 raised through these debt and equity transactions were applied to partially fund the Corporation's exploration activity at ATP 550P in Australia ($884,228) and to partially fund the Corporation's acquisition of an interest in the Pilona TAC in Indonesia ($1,898,425). The remaining funds were applied to general working capital.

PLAN OF DISTRIBUTION

On February 26, 1999, March 2, 1999, March 5, 1999 and April 1, 1999, the Corporation completed the private placement of a total of 17,580,000 Special Warrants pursuant to prospectus exemptions under applicable securities legislation at a price of $0.50 per Special Warrant. Pursuant to the Agency Agreement, the Corporation appointed the Agent as their agent to offer for sale, by way of private placement, on a guaranteed basis for 13,860,000 Special Warrants and, on a best efforts basis, up to an additional 6,140,000 Special Warrants for an aggregate amount of 20,000,000 Special Warrants all at a price of $0.50 per Special Warrant. The Corporation paid an aggregate of $440,400 as a commission to the Agent in connection with the sale of the Special Warrants, representing a 6% commission on the gross proceeds raised pursuant to the offering other than on the private placement of 2,400,000 Special Warrants to Gulf Canada of which there was no commission paid, and a 3% commission paid on 1,000,000 Special Warrants sold to certain subscribers brought forward by the Corporation. The commission paid to the Agent was further reduced by finder's fees of 6% on the subscription for 6,060,000 Special Warrants from Newstar and 5% on the subscription of 2,200,000 Special Warrants from New Crystal. The Corporation will receive no proceeds, and the Agent shall receive no commission or fee, in connection with the distribution of Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants. As additional compensation, the Corporation has granted to the Agent 1,000,000 Compensation Warrants. Each Compensation Warrant entitles the holder thereof to acquire, at no additional cost, one Warrant on or before the Expiry Time. Any Compensation Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. The Corporation will also reimburse the Agent for its fees (including the fees of their legal counsel) and expenses incurred by them in connection with the distribution of the Special Warrants.

The Special Warrants were issued pursuant to the Special Warrant Indenture. Each Special Warrant entitles the holder thereof to acquire, at no additional cost, one Common Share and one-half of one Warrant at any time prior to the Expiry Time. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. Since the date of issuance, no Special Warrants have been exercised. The offering price of $0.50 per Special Warrant was determined by negotiation between the Corporation and the Agent. Each holder of Special Warrants resident in a Filing Jurisdiction in which a receipt for this prospectus has not been obtained on or before May 27, 1999 (or all holders of Special Warrants wherever situate, in the event that the Corporation has not obtained such a receipt from each of the securities commissions in the Filing Jurisdictions on or before May 27, 1999), shall be entitled to receive upon the exercise or deemed exercise of the Special Warrants 1.1 Common Shares and one half of one Warrant, subject to adjustment, at no additional cost to the holder. All of the proceeds of the sale of the Special

Warrants (net of the Agent's commission on the sale of the Special Warrants) were previously released to the Corporation.

Each whole Warrant entitles the holder thereof to acquire one Common Share at the price of $0.65 at any time prior to 4:30 p.m. (Calgary time) on February 25, 2002. Any Warrants not exercised prior to such time shall be void and of no force or effect. The Warrants will be issued pursuant to the Warrant Indenture. See "Description of Share Capital - Warrants".

This prospectus is being filed in the Filing Jurisdictions to qualify the distribution of the Common Shares and the Warrants to be issued upon the exercise of the Special Warrants and 1,000,000 of the Warrants to be issued upon the exercise of the Compensation Warrants. The Common Shares issuable upon the exercise of the Special Warrants and Warrants will, when issued, be issued as fully paid and non-assessable shares.

The securities qualified hereunder have not been and will not be registered under the *United States Securities Act of 1933* (the "1933 Act"), as amended, and, subject to certain exceptions, may not be offered, sold or delivered in the United States. The Agent has agreed that it will not offer to sell these securities within the United States, except for sales in accordance with applicable securities exemptions.

Holders of Special Warrants who wish to exercise the Special Warrants held by them on or prior to the Expiry Time should complete the exercise form on the Special Warrant certificates and deliver the certificates and the executed form to the Trustee at its principal office in Calgary, Alberta. Subsequent to the Expiry Time, Special Warrant certificates cease to evidence Special Warrants and represent only the right of the registered holder to receive the applicable number of Common Shares and Warrants pursuant to the terms of the Special Warrant Indenture. Common Shares issued to holders of Special Warrants or Warrants in any province in which a receipt for this prospectus has not been issued may be subject to resale restrictions contained in applicable securities legislation.

USE OF PROCEEDS

The Corporation will not receive any additional cash proceeds upon the exercise or deemed exercise of the Special Warrants and no further commission will be payable by the Corporation in connection with the issuance of the Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants. The net proceeds from the sale of the Special Warrants was approximately $8,149,600 after deducting the Agent's commissions of $440,400 and expenses of the offering of approximately $200,000. The proceeds from the sale of the Special Warrants have been or will be used as follows:

Description		
Gulf Acquisition	$	5,000,000
Repayment of FDM Note 1		3,066,600(1)
General Working Capital		83,000
	$	8,149,600

Note:

(1) The proceeds from the FDM Note 1 were used in connection with the acquisition of EPS from FDM by EQII. See "Business of the Corporation - Indonesia - GEPS TAC - Overview". Represents repayment of US$ 2,000,000 in Canadian funds.

DESCRIPTION OF SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value and an unlimited number of Preferred Shares, issuable in series, of which 43,065,736 Common Shares and 21,134,203 Series 1 Preferred Shares were issued and outstanding as at March 31, 1999.

Common Shares

The Common Shares are without par value. Holders thereof are entitled to receive dividends if, as and when declared by the directors, to receive notice of and to attend all meetings of shareholders and to exercise one vote for each Common Share held and are entitled upon liquidation, dissolution or winding-up, to receive on a pro rata basis such assets of the Corporation as are distributable to the holders of Common Shares.

Preferred Shares

The Preferred Shares are issuable in an unlimited number and may be issued from time to time in one or more series, each series to consist of such number of shares and having the designation, rights, privileges, restrictions and conditions which the board of directors of the Corporation determines prior to the issue of such series.

Series 1 Preferred Shares

The Series 1 Preferred Shares are issuable in an unlimited number, are non-voting, entitle the holders thereof to an annual cumulative dividend of 6.5% and carry, at all times, the right to elect one director to the Corporation's board of directors. All or a portion of the Series 1 Preferred Shares are redeemable by Equatorial at any time, subject to the payment of accrued dividends, at the price of $0.5678 per Series 1 Preferred Share, plus a premium of 12% in the first calendar year, with the premium payable declining at a rate of 2% per calendar year for the first five calendar years thereafter and declining by 1% in the seventh year. No premium is payable on redemption after December 31, 2005.

All or any portion of the Series 1 Preferred Shares are also convertible into Common Shares, on a one for one basis: (i) at the holder's option on or after February 25, 2000; (ii) upon the occurrence of certain events of default, the principal amount of the Series 1 Preferred Shares plus accrued and unpaid dividends will be immediately convertible, at the holders option, into Common Shares based upon the market price prevailing at the time of default subject to any regulatory floor prices; (iii) at any time after February 25, 2000 if the Corporation elects to redeem all or part of the Series 1 Preferred Shares; and (iv) in certain circumstances where an offer is made to purchase the Common Shares. If the Series 1 Preferred Shares become convertible as a result of the occurrence of one of the events of default, then the holders of the Series 1 Preferred Shares shall have the right at all times thereafter, until all of the Series 1 Preferred Shares are converted, to elect two-thirds of the directors of Equatorial. The Corporation also has the right to convert the Series 1 Preferred Shares into Common Shares on or after February 25, 2001, if the weighted average price of the Common Shares during the ten consecutive trading days preceding the date upon which a notice of conversion is sent to the holders of Series 1 Preferred Shares, is greater than or equal to $0.8517. The right of Gulf Canada to elect two-thirds of the Corporation's board of directors is subject to Gulf Canada's obligation to appoint one nominee of Newstar and one nominee of New Crystal.

Warrants

The Warrants will be issued to the holders of the Special Warrants and Compensation Warrants upon the exercise thereof and will be governed by the Warrant Indenture. Equatorial has appointed the principal office of the Trustee in the City of Calgary as warrant agent at which Warrants may be surrendered for exercise or exchange. Reference is made to the Warrant Indenture for the full text of the attributes of the Warrants.

Each whole Warrant entitles the holder to purchase one Common Share at the price of $0.65 per share at any time on or before 4:30 p.m. (Calgary time) on February 25, 2002. Equatorial may purchase, by private contract or otherwise, all or any portion of the Warrants and any Warrants so acquired shall be cancelled and may not be reissued. The Warrant Indenture contains provisions to the effect that in the event of any reclassification of the Common Shares or capital reorganization or in the event of the consolidation, amalgamation or merger of Equatorial with another company, a proportionate adjustment or change will be made in the number and kind of securities issuable on the exercise of the Warrants. The Warrant Indenture also provides that the exercise price per Common Share is subject to adjustment in certain events. To the extent that the holder of a Warrant would otherwise be entitled to purchase a fraction of a Common Share, such right may be exercised only in combination with other rights which in the aggregate entitle the holder to purchase a whole number of Common Shares. The Warrant Indenture provides that holders of Warrants will only be entitled to cash payments in respect of fractional entitlements in certain circumstances. No adjustments as to dividends will be made upon any exercise of Warrants. Holders of Warrants do not have any voting or pre-emptive rights or any other rights as shareholders of Equatorial.

Convertible Debentures

On November 20, 1998, Equatorial distributed by way of private placement 2,000 Convertible Debentures for aggregate gross proceeds of $2,000,000. The Convertible Debentures:

(i) mature on November 21, 2003;

(ii) are convertible, subject to anti-dilution provisions, on the basis of:

  (a) 2,800 Common Shares for each Convertible Debenture until November 20, 2001;

  (b) 2,456 Common Shares for each Convertible Debenture from November 21, 2001 until November 20, 2002; and

  (c) 2,188 Common Shares for each Convertible Debenture from November 21, 2002 until November 21, 2003;

(iii) bear interest at a rate of 10% per annum, payable quarterly; and

(iv) are redeemable by the Corporation, in whole, after November 20, 2000 if the average trading price of the Common Shares exceeds $1.00 over a period of 20 consecutive trading days on the stock exchange on which such shares are listed.

The Convertible Debentures are secured by a pledge of all of the securities of Pilona currently owned by EQII and by an assignment of certain accounts receivable of Pilona, and are guaranteed by EQII and Pilona. A commission of 2% of the gross proceeds from the issuance of the Convertible Debentures was paid to, and 150,000 Common Share Purchase Warrants were granted to, each of Hodgkinson Equities Corporation and

Intergulf Investment Corporation. Hodgkinson Equities Corporation is a company controlled by Robert L. Hodgkinson, a former director of the Corporation and Intergulf Investment Corporation is a company controlled by Nabih A. Faris, a current director of the Corporation.

Common Share Purchase Warrants

The Common Share Purchase Warrants entitle the holder to acquire, prior to November 20, 2000, one Common Share for every Common Share Purchase Warrant in exchange for payment of $0.35 per Common Share until November 20, 1999 and $0.4025 per Common Share after November 20, 1999 up to and including November 20, 2000. As at March 31, 1999, 150,000 Common Share Purchase Warrants were still issued and outstanding.

CAPITALIZATION

The following table sets forth the capitalization of the Corporation as at December 31, 1998 and as at February 28, 1999, both before and after giving effect to the issuance of Common Shares on exercise of the Special Warrants. The table should be read in conjunction with the Corporation's consolidated financial statements and notes thereto included elsewhere in this prospectus.

	Authorized	Outstanding as at December 31, 1998	Outstanding as at February 28, 1999	Outstanding as at February 28, 1999 after giving effect to the exercise of the Special Warrants
		(audited)	**(unaudited)**	**(unaudited)**
Debt				
Ivanhoe Note[(1)]	US$ 8,388,500	$ 13,182,758 (US$ 8,597,638)	$12,963,519 (US$ 8,597,638)	$12,963,519 (US$ 8,597,638)
Linyi Note[(1)]	US$ 5,298,000	$ 8,325,953 (US$ 5,430,087)	$8,187,485 (US$ 5,430,087)	$8,187,485 (US$ 5,930,087)
FDM Note 1[(2)]	US$ 2,000,000	$3,066,600 (US$ 2,000,000)	Nil	Nil
Convertible Debentures[(3)]	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Credit Facility[(4)]	$45,000,000	Not applicable	$45,000,000	$45,000,000
Promissory Note[(5)]	$10,000,000	Not applicable	$10,000,000	$10,000,000
Share Capital				
Common Shares[(6)(9)]	unlimited	$32,047,339 (43,065,736 Common Shares)	$32,047,339 (43,065,736 Common Shares)	$40,196,939 (60,645,736 Common Shares)
Special Warrants[(7)]	20,000,000	not applicable	$8,149,600 (17,580,000 Special Warrants)	Nil
Series 1 Preferred Shares[(8)]	unlimited	Not applicable	$ 12,000,000 (21,134,203 Series 1 Preferred Shares)	$12,000,000 (21,134,203 Series 1 Preferred Shares)

Notes:

(1) Includes US$ 209,138 and US$ 132,087 in interest on the Ivanhoe Note and Linyi Note, respectively. Interest up to December 14, 1998 has been deferred and added to the principal pursuant to the Trust Indenture. The Linyi Note and the Ivanhoe Note each bear interest at the rate of 10%, payable quarterly. The Linyi Note and Ivanhoe Note are each guaranteed by Equatorial and are each secured through a pledge of all the issued and outstanding shares of EPS. None of the principal of the Ivanhoe Note and the Linyi Note was repaid prior to December 31, 1998. In connection with the Gulf Acquisition, EQII and Equatorial repaid the FDM Note 1. FDM Note 1 and the FDM Note 2 were issued for US$

2,000,000 and US$ 3,000,000, respectively, at an interest rate of prime plus 3%, payable quarterly. The FDM Note 2 matures upon expiry of the GEPS TAC and is guaranteed by Equatorial and secured by a pledge of all the issued and outstanding shares of EPS. See "Business and Properties of the Corporation - GEPS TAC".

(2) After a reduction of US$ 2,000,000, which resulted from the Corporation applying proceeds of the sale of Special Warrants to payout the FDM Note 1. Does not include FDM Note 2, which is contingent on certain production targets being met. See "Business and Properties of the Corporation - GEPS TAC".

(3) The Convertible Debentures were issued at a face value of $1,000 for aggregate gross proceeds of $2,000,000, bear an interest rate of 10% per annum, payable quarterly, and are redeemable and convertible. See "Description of Share Capital - Convertible Debentures".

(4) The Corporation has obtained a five year revolving term credit facility from a Canadian chartered bank (the "Bank") in the amount of $45,000,000, repayable, commencing on June 30, 1999, over five years in the annual amounts of $12,000,000 in years one and two and $7,000,000 in each of the remaining three years of the term. The Corporation has granted security to the Bank over all of its assets in connection with the credit facility by way of a fixed and floating charge demand debenture which has been pledged to the Bank and by a general security agreement also granted to the Bank. Canadian dollar borrowings are to be made either by way of banker's acceptances or will bear interest based upon the bank's prime rate plus one percent per annum. American dollar borrowings will bear interest either at the Bank's U.S. base rate plus one percent per annum or the London Inter-bank offering rate plus two percent per annum. In connection with the credit facility the Corporation entered into a priority and intercreditor agreement among the Bank, EQII and CIBC Mellon Trust Company, as trustee on behalf of FDM, Ivanhoe and Linyi which provides that FDM, Ivanhoe and Linyi will have priority to the Corporation's existing rights and interests relating to Indonesia, including the assets of certain of the Corporation's existing subsidiaries, and the Bank will have priority to the Corporation's Canadian assets and any future international assets.

(5) The Promissory Note is payable on the later of February 25, 2005 and one day following the repayment by Equatorial of all amounts owing under the Credit Agreement with interest on the outstanding principal balance thereof at a rate of 7.22% per annum, payable quarterly commencing on March 31, 1999 until the principal amount is due and payable. The Corporation may pre-pay any or all of the outstanding principal interest accrued thereon but must, in certain circumstances, pay a pre-payment premium calculated on a declining basis at a rate of 2.22% per year with a premium of 13.33% in 1999 and 1.11% in the year 2005. The Promissory Note is convertible, in the event of an occurrence of certain events of default, at the option of the holder and would require the Corporation to convert all outstanding principal and interest into Common Shares at a rate of one Common Share for each $0.5678 of principal and interest outstanding under the Promissory Note.

(6) Assuming an aggregate of 17,580,000 Common Shares will be issued upon exercise of the Special Warrants, subject to adjustment in certain circumstances. See "Plan of Distribution".

(7) Each Special Warrant entitles the holder thereof to acquire, at no additional cost, one Common Share and one-half of one Warrant at any time prior to the Expiry Time. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. Since the date of issuance, no Special Warrants have been exercised. The offering price of $0.50 per Special Warrant was determined by negotiation between the Corporation and the Agent. Proceeds are net of commissions and expenses of issue.

(8) The Series 1 Preferred Shares are issuable in an unlimited number, are non-voting, entitle the holders thereof to an annual cumulative dividend of 6.5% and carry, at all times, the right to elect one director to the Corporation's board of directors. All or a portion of the Series 1 Preferred Shares are redeemable by Equatorial at any time, subject to the payment of accrued dividends, the price of $0.5678 per Series 1 Preferred Share, plus a premium of 12% in the first calendar year, with the premium payable declining at a rate of 2% per calendar year for the first five calendar years thereafter and declining by 1% in the seventh year. No premium is payable on redemption after December 31, 2005. All or any portion of the Series 1 Preferred Shares are also convertible into Common Shares, on a one for one basis upon the occurrence of various events. See "Description of Share Capital - Preferred Shares - Series 1 Preferred Shares". If the Series 1 Preferred Shares become convertible as a result of the occurrence of one of the events of default, then the holders of the Series 1 Preferred Shares shall have the right at all times thereafter, until all of the Series 1 Preferred Shares are converted, to elect two-thirds of the directors of Equatorial. The principal amount of the Series 1 Preferred Shares plus accrued and unpaid dividends will be immediately convertible, at the holders option, into Common Shares based upon the market price prevailing at the time of default subject to any regulatory floor prices. The Corporation also has the right to convert the Series 1 Preferred Shares into Common Shares on or after February 25, 2001, if the weighted average price of the Common Shares during the ten consecutive trading days preceding the date upon which a notice of conversion is sent to the holders of Series 1 Preferred Shares, is greater than or equal to $0.8517. The right of Gulf Canada to elect two-thirds of the Corporation's board of directors is subject to Gulf Canada's obligation to appoint one nominee of Newstar and one nominee of New Crystal.

(9) Does not include: (i) a total of 1,790,000 Common Shares issuable upon the exercise of stock options outstanding as at March 19, 1999 (see "Stock Option Plan"); (ii) a total of 8,790,000 Common Shares issuable upon the exercise of the Warrants (see "Description of Share Capital-Warrants"); (iii) an indeterminate number of Common Shares issuable upon the conversion of the Series 1 Preferred Shares; (iv) an indeterminate number of Common Shares issuable upon default of the Promissory Note; (v) a variable declining amount of Common Shares issuable upon conversion of the Convertible Debentures (see "Description of Share Capital - Convertible Debentures"); (vi) an indeterminate number of Common shares issuable upon the default and conversion of the Linyi Note and the Ivanhoe Note; (vii) a total of 1,000,000 Common Shares issuable upon the exercise of 1,000,000 Warrants to be issued to the Agent upon the exercise of the Compensation Warrants (see "Plan of Distribution"); or (viii) a total of 150,000 Common Shares issuable on the exercise of the Common Share Purchase Warrants (see "Description of Share Capital - Common Share Purchase Warrants").

(10) The Corporation’s deficit as at December 31, 1998 was $25,966,762.

TRADING HISTORY OF COMMON SHARES

The Common Shares listed for trading on the VSE under the name Australian Oilfields Pty. Ltd. from May 6, 1996 to June 10, 1997 upon which date the Corporation changed its name to Equatorial Energy Inc. The Common Shares currently trade on the VSE under the trading symbol "OZ". The following table sets out the high and low closing prices and the total trading volumes for the indicated periods:

	Price Range		Trading
	High	Low	Volume
	$	$	
1997			
1st quarter	2.45	1.75	1,506,066
2nd quarter	2.00	1.15	1,293,787
3rd quarter	2.09	1.30	2,349,510
4th quarter	2.15	1.16	2,388,200
1998			
1st quarter	1.65	1.08	4,592,785
2nd quarter	1.35	0.67	4,196,271
3rd quarter	0.85	0.27	2,857,957
October	0.46	0.30	1,310,075
November	0.81	0.31	6,365,325
December	0.63	0.38	2,834,100
1999			
January	0.70	0.40	3,060,258
February	0.70	0.54	2,849,070
March	0.59	0.40	3,347,735

The closing price of the Common Shares on the VSE on February 25, 1998, being the last trading day prior to the announcement of the offering of the Special Warrants, was $0.62. The closing price of the Common Shares on the VSE on March 31, 1999 was $0.43.

PRIOR SALES

Details of Common Shares issued during the twelve months preceding the date of filing of the preliminary prospectus related to this offering are as follows:

Number of Common Shares	Price per Common Share	Nature of Consideration	Date	Purpose
9,000,000	$0.31	cash	September 14, 1998	Reduction of long term debt
150,000	$0.35	cash	December 18, 1998	Exercise of Warrants
6,750,090	$0.55	cash	December 31, 1998	Exploration and development

There are no outstanding agreements to issue additional Common Shares other than pursuant to the exercise of the Special Warrants, the exercise of the Warrants issuable on the exercise of the Special Warrants and the Compensation Warrants, the conversion of the Convertible Debentures, the conversion of the Series 1 Preferred Shares, the Promissory Note, the Ivanhoe Note and the Linyi Note and pursuant to the stock options granted under the Corporation's stock option plan. See "Stock Option Plan."

DIRECTORS AND OFFICERS

The names, municipalities of residence, positions held with the Corporation and principal occupations of the directors and officers of the Corporation are as follows:

Name, Present Office Held with the Corporation and Municipality of Residence	Five Year History of Principal Occupations
G. Marshall Abbott President, Chief Executive Officer and Director *Calgary, Alberta*	President and Chief Executive Officer of the Corporation since November, 1996; prior thereto, President of Antrim International Energy Inc. (a private oil and gas company) from August, 1996 to November, 1996; prior thereto, Senior Vice-President of Exploration for Stampeder Exploration Ltd. (a public oil and gas company).
David N. Matheson[(1)] Executive Vice-President, Chief Financial Officer, Secretary and Director *Calgary, Alberta*	Executive Vice-President and Chief Financial Officer of the Corporation since November, 1996; prior thereto, President of the Corporation from April, 1996 to November, 1996; prior thereto, Vice-President, Finance and Chief Financial Officer of M.L. Cass Petroleum Corporation (a public oil and gas company).
Ir K. A. Sjaiful Achmad Director *Jakarta, Pusat, Indonesia*	President of Pilona Petro Tanjung Lontar Ltd. and President of PT Petro Inti Loka Nusantara (Indonesian oil and gas companies).
Nabih A. Faris[(1)] Director *Vancouver, British Columbia*	Professional Engineer, President of Intergulf Group and a director of Penn West Petroleum Ltd.
Larry Jones Senior Vice-President and Chief Operating Officer *Calgary, Alberta*	Senior Vice-President and Chief Operating Officer of the Corporation since March 29, 1999; prior thereto, Vice-President, Corporate Development and Land, PennWest Petroleum Limited.
Henry W. Sykes[(1)] Director *Calgary, Alberta*	Senior Vice-President, Business Development and General Counsel of Gulf Canada since June, 1998; prior thereto, Partner, Bennett Jones, Barristers & Solicitors.
Peter Meredith Director *Vancouver, British Columbia*	Chief Financial Officer of Diamond Works Ltd. since September, 1996; prior thereto, Partner, Deloitte & Touche, Chartered Accountants.
Robert R. Rooney Director *Calgary, Alberta*	Partner, Bennett Jones, Barristers and Solicitors.
Anthony Edwards Vice-President, Exploration *Calgary, Alberta*	Vice-President, Exploration of the Corporation since April, 1996; prior thereto Exploration Manager at Norcen Energy Resources Limited (a public oil and gas company).

Name, Present Office Held with the Corporation and Municipality of Residence	Five Year History of Principal Occupations
Richard P. Cooper Vice-President, Engineering *Calgary, Alberta*	Vice-President, Engineering of the Corporation since February, 1997; prior thereto, petroleum and reservoir engineer with Pan Canadian Petroleum Limited and Chevron Canada Limited.

Note:
(1) Member of the Audit Committee.

STATEMENT OF EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the total compensation paid, during each of the last three financial years (as applicable), to the Corporation's Chief Executive Officer and each of the Corporation's other executive officers who received total remuneration in excess of $100,000 during such financial years, determined on the basis of base salary and bonuses,(collectively, the "Executive Officers").

		Annual Compensation			Long-term Compensation Awards	
Name and Principal Position	**Fiscal Year Ended December 31**	**Salary $**	**Bonus $**	**Other Annual Compensation $**	**Securities Under Options Granted #**	**All Other Compensation $**
G. Marshall Abbott [1]	1998	168,000	nil	nil	nil	nil
Chief Executive Officer	1997	132,000	5,000	nil	325,000	nil
	1996	11,000	nil	nil	nil	nil
David Matheson	1998	150,000	nil	nil	nil	nil
Executive Vice-President	1997	120,000	5,000	nil	275,000	nil
and Chief Financial Officer	1996	40,000	nil	nil	nil	nil

Notes:
(1) Perquisites and other personal benefits received in 1996, 1997 and 1998 did not exceed the lesser of $50,000 and 10% of the total annual salary and bonus for any of the Executive Officers.
(2) Mr. Abbott commenced his employment with the Corporation on December 1, 1996.
(3) Mr. Matheson commenced his services to the Corporation in April 1996, and is remunerated pursuant to the terms of a financial services contract with Queens Cliff Management Ltd., a private company owned 100% by Mr. Matheson. See "Consultant Contracts".

There are no defined benefit or actuarial plans in place.

Stock Options/SARS

Option Grants

The Corporation did not grant any stock options or stock appreciation rights to Executive Officers in 1998.

Aggregate Option Exercises and Financial Year-End Option Values

There were no options exercised by Executive Officers during the financial year ended December 31, 1998. The following table sets forth certain information respecting the numbers and accrued value of unexercised stock options of the Executive Officers as at December 31, 1998.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at December 31,1998 (#)		Value of Unexercised in-the-Money Options at December 31, 1998 ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Marshall Abbott	Nil	0	325,000	0	0	0
Dave Matheson	Nil	0	275,000	0	0	0

Note:
(1) The value of the unexercised "in-the-money" options has been determined by subtracting the exercise price of the potions from the closing Common Share price of $0.39 on December 31,1998 and multiplying by the number of Common Shares that may be acquired upon the exercise of the options.

Consultant Contracts

Pursuant to a consulting agreement dated December 1, 1996, the Corporation has contracted with the President and Chief Executive Officer, Marshall Abbott, to acquire Mr. Abbott's exclusive management services for a three year period ending November 30, 1999. The monthly consulting fee payable to Mr. Abbott is $11,000 per month and on April 2, 1998 (effective January 1, 1998), Mr. Abbott's consulting fee was increased to $14,000 per month.

Pursuant to a Management Agreement dated May 1, 1996, the Corporation has contracted for professional financial services with Queenscliff Management Ltd. ("Queenscliff"), a private company incorporated in the Province of British Columbia and owned 100% by David N. Matheson, Executive Vice-President, Chief Financial Officer and director of the Corporation, for professional financial services. The term of the contract is one year and the contract fee was $5,000 per month for the period from May 1, 1996 to December 31, 1996 and $10,000 per month for the remaining four months of the contract term. On April 2, 1998 and effective January 1, 1998, the contract fee was increased to $12,500 per month.

The foregoing fees are included in the remuneration disclosed under "Statement of Executive Compensation - Summary Compensation Table".

Compensation of Directors

The directors of the Corporation do not receive any cash compensation for their services as directors or for attending meetings, but are reimbursed for expenses incurred by them in order to attend meetings of the board of directors or any committee thereof or in the performance of their duties as directors of the Corporation. Directors and officers were not granted options to acquire Common shares during the year ended December 31, 1998.

Termination of Employment or Change of Control

There is no employment contract in place between the Corporation and either of the Executive Officers, and there are no provisions for compensation for Executive Officers in the event of termination of employment or a change in responsibilities following a change in control.

STOCK OPTION PLAN

The board of directors of the Corporation authorized the implementation of a new stock option plan (the "Plan") effective January 25, 1997, which was approved by the shareholders of the Corporation at the 1997 annual general and special meeting held on April 17, 1997.

Eligibility to receive options to purchase Common Shares under the Plan is limited to directors, officers or service providers of Equatorial, in connection with their employment or position. The maximum number of Common Shares which may be issued pursuant to options granted under the Plan is 1,800,000, or such additional amounts as may be approved from time to time by shareholders of the Corporation. Options issued pursuant to the Plan will have an issue price as set by the directors of the Corporation, subject to the limitations of any stock exchange on which the Common Shares are listed. Options granted under the Plan are non-assignable and non-transferrable and, if not exercised, will expire on the earlier of: (i) the expiry date of the options; (ii) 365 days from the date that the optionee ceases to be a director, officer or service provider of Equatorial by reason of death, disability or retirement; (iii) 30 days from the date the optionee ceases to be a director, officer or service provider of Equatorial by reason of early retirement, voluntary resignation or termination for other than cause; or (iv) immediately from the date the optionee ceases to be a director, officer or service provider of Equatorial by reason of termination for cause. The Plan also provides that if a change of control occurs, as defined therein, all Common Shares subject to options issued shall immediately become vested and may thereupon be exercised in whole or in part by the option holder.

On April 29, 1998, the board of directors of the Corporation approved the adoption of a new stock option plan (the "New Plan") to replace the Plan. The New Plan was subsequently approved by the shareholders of the Corporation at the 1998 annual general and special meeting held on June 18, 1998. All employees, officers, directors, and providers of services to the Corporation are eligible to participate in the New Plan, which is to be administered by the board of directors of the Corporation.

The Corporation had granted options for the full number of Common Shares reserved under the Plan and therefore sought to increase the number of Common Shares available for issuance upon the exercise of stock options from 1,800,000 under the Plan to 2,700,000 under the New Plan. In addition to increasing the number of Common Shares available for grant under the Plan, the Corporation also proposed to replace the Plan with the New Plan, which management of Equatorial viewed as a less complex stock option plan and more in line with stock option plans commonly used on other stock exchanges in Canada. The New Plan provides that the normal expiry date of Options will be no longer than 10 years after the granting of such Options, subject to expiry on the earlier of the expiry date of such options or twelve months in the event of death, permanent disability or normal retirement and ninety days for any reason other than death, permanent disability or retirement. The options granted by the Corporation that were outstanding at the date of the adoption of the New Plan will become subject to the terms of the New Plan upon approval by regulatory authorities. Although the New Plan complied with provisions of other exchanges in Canada, regulatory approval has not yet been obtained from the VSE for the New Plan to replace the Plan.

The following table sets forth certain information relating to options outstanding to directors, officers and employees of the Corporation as at February 28, 1999:

Category	**Date of Grant**	**Date of Expiry**	**Number of Common Shares**	**Exercise Price**	**Closing Price on Date of Grant**	**Market Value of Securities Under Option at December 31, 1998**
Officers of Corporation (4)	June 3, 1997	June 3, 2002	850,000	$1.55	$1.60	0
	February 10, 1997	February 10, 2000	200,000	$1.95	$2.00	0
Directors of Corporation who are not also Officers (3)	June 3, 1997	June 3, 2002	275,000[(1)]	$1.55	$1.60	0
Employees (3)	June 3, 1997	June 3, 2002	175,000	$1.55	$1.60	0
	August 21, 1997	August 21, 2002	40,000	$1.55	$1.50	0
Service Providers (4)	June 3, 1997	June 3, 2002	185,000	$1.55	$1.60	0
	Sept. 30, 1997	Sept. 30, 2002	65,000	$1.55	$2.01	0
Total			1,790,000			0

Note:

(1) Includes a former director of the Corporation who currently has an option to purchase Common Shares., which expires on April 10, 1999.

DIVIDEND POLICY

To date, the Corporation has not paid any dividends on the outstanding Common Shares and has no intention to declare dividends on its Common Shares in the foreseeable future. Any decision to pay dividends on the Common Shares in the future will be dependent upon the financial requirements of the Corporation to finance future growth, the financial condition of the Corporation and other factors which the board of directors of the Corporation may consider appropriate in the circumstances.

PRINCIPAL HOLDERS OF SECURITIES

The following table sets forth the name and municipality of residence/incorporation of the persons or companies who, to the knowledge of the directors and officers of Equatorial, own, beneficially, directly or indirectly, more than 10% of the issued and outstanding Common Shares.

Name and Address	Number and Class of Shares	Type of Ownership	Percentage of Class	Percentage of Class After Giving Effect to the Exercise of Special Warrants
Newstar Securities Ltd.[1] 2nd Floor Jonsim Place 228 Queens Road East WanChai, Hong Kong	5,516,130 Common Shares	beneficial	13	19[2]

Note:

(1) Newstar, a company controlled by Robert Friedland, subscribed for 6,060,000 Special Warrants under this offering.

(2) After conversion of the Special Warrants, Newstar will own 11,576,000 Common Shares. This does not include the issuance of the Common Shares issuable upon the conversion of the Warrants issuable on the conversion of the Special Warrants and the Common Shares potentially issuable upon conversion of the Ivanhoe Note, a company affiliated with Newstar.

(3) All Common Shares currently owned by Newstar and by New Crystal, including those issuable upon the exercise of the Special Warrants and the exercise of the Warrants underlying such Special Warrants, are subject to the Voting Agreements. See "Business and Properties of the Corporation - Indonesia - GEPS TAC".

As at February 28, 1999, the directors and officers of the Corporation, as a group, owned or controlled, directly or indirectly, 11,443,000 Common Shares including 8,260,000 Common Shares which will be controlled, in certain circumstances, by certain directors and officers upon exercise of the Special Warrants, representing 26.6% of the outstanding Common Shares. See "Business and Properties of the Corporation - Indonesia - GEPS TAC". This percentage will increase to 32.5% assuming that 17,580,000 Common Shares are issued upon exercise of the Special Warrants.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

None of the directors or senior officers of the Corporation have been indebted to the Corporation at any time during the most recently completed financial year nor has the Corporation guaranteed or otherwise supported any indebtedness of any of the said parties during that period.

REGULATORY ENVIRONMENT

Canada

Canadian Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

Pricing and Marketing - Oil

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of light crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board ("NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issue of such a licence requires the approval of the Governor in Council.

Pricing and Marketing - Natural Gas

In Canada the price of natural gas sold in interprovincial and international trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the NEB and the government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m^3/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issue of such a licence requires the approval of the Governor in Council.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

The North American Free Trade Agreement

On January 1, 1994 the North American Free Trade Agreement ("NAFTA") entered into among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S. or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resource exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined through negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time the governments of Canada, Alberta, British Columbia and Saskatchewan have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced planning projects.

Regulations made pursuant to the Alberta *Mines and Minerals Act* provide various incentives for exploring and developing oil reserves in Alberta. Oil produced from horizontal extensions commenced at least 5 years after the well was originally spudded may also qualify for a royalty reduction. A 24 month, 8,000 m^3 exemption is available to production from a well that has not produced for a 12 month period, if resuming production after February 1, 1993. As well, oil production from eligible new field and new pool wildcat wells and deeper pool test wells spudded or deepened after September 30, 1992 is entitled to a 12 month royalty exemption (to a maximum of $1 million). Oil produced from low productivity wells, enhanced recovery schemes (such as injection wells) and experimental projects is also subject to royalty reductions.

The Alberta Government has also introduced the Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 30, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

In Alberta, the royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying exploratory gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 is eligible for a royalty exemption for a period of 12 months, up to a prescribed maximum amount. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 meters is also subject to a royalty exemption, the amount of which depends on the depth of the well.

In Alberta, a producer of oil or natural gas is entitled to a credit against the royalties payable to the Crown by virtue of the Alberta royalty tax credit ("ARTC") program. The ARTC program is based on a price-sensitive formula, and the ARTC rate varies between 75 %, at prices for oil below $100 per cubic meter, and 25%, at prices above $210 per cubic meter. The ARTC rate is applied to a maximum of $2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from corporations claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate is established quarterly based on the average "par price", as determined by the Alberta Department of Energy for the previous quarterly period. On December 22, 1997, the Government of Alberta gave notice that they intended to review the ARTC program with expected changes to take effect prior to 2001.

The Government of Saskatchewan's fiscal regime for the oil and gas industry provides an incentive to encourage the drilling of new vertical oil wells through a revised royalty/tax structure for new vertical oil wells and incremental production from new or expanded water-flood projects. This "third tier" Crown royalty rate is price sensitive and varies between heavy and non-heavy oil (from a minimum of 10% for heavy oil at a base price to a maximum of 35% for non-heavy oil at a price above the base price). Previous time-based royalty/tax holidays applicable to vertically drilled oil wells have been replaced with volume-based royalty/tax reduction incentives in which a maximum royalty of 5% will apply to various volumes depending on the depth and nature of the well (up to 25,000 cubic metres of oil in the case of deep exploratory wells). The maximum royalty applicable to the first 12,000 cubic metres of oil has been increased from 5% to 10% for production from certain horizontal wells. In addition, royalty/tax holidays for deep horizontal oil wells have been replaced with a 25,000 cubic metres volume incentive (5% maximum royalty). Oil production from qualifying reactivated oil wells is subject to a maximum new royalty rate of 5% for the first 5 years following re-activation in the case of wells reactivated after 1993 and shut-in or suspended prior to January 1, 1993. With respect to qualifying exploratory natural gas wells, the first 25 million cubic metres of natural gas produced will be subject to an incentive maximum royalty rate of 5%. On February 9, 1998, the Government of Saskatchewan announced further royalty incentive programs to encourage oil and gas exploration.

Producers of oil and natural gas in British Columbia are also required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), the quantity of oil produced in a month and the value of the oil. Oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production. The royalty payable on natural gas is determined on a sliding scale based on a reference price which is the greater of the amount obtained by the producer and at prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

Oil and natural gas royalty holidays and reductions for specific wells reduce the amount of Crown royalties paid by the Corporation to the provincial governments. In Alberta, the ARTC program provides a rebate on Alberta Crown royalties paid in respect of eligible producing properties. Both of these incentives increase the net income of the Corporation.

Canadian Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines and penalties.

In Alberta, environmental compliance has been governed by the *Alberta Environmental Protection and Enhancement Act* ("AEPEA") since September 1, 1993. In addition to replacing a variety of older statutes which related to environmental matters, AEPEA also imposes certain new environmental responsibilities on oil and natural gas operators in Alberta and in certain instances also imposes greater penalties for violations.

British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process which contemplates public participation in the environmental review.

The Corporation is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased, although not material, expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment.

Indonesia

Pertamina is responsible for the management of operations contemplated under all TAC arrangements, and the contractor is responsible to Pertamina for the execution of such operations. TACs have a twenty year term and in addition to a minimum annual work commitment required to be made during the initial six year period of the TAC, the contractor is required, at least three months prior to the beginning of each calendar year (or at other mutually agreed times), to submit for approval to Pertamina a plan of development ("POD") and budget of costs.

Pertamina is typically responsible for managing all TAC operations, assuming and discharging the contractor from all taxes, other than Indonesian corporate taxes and the tax on interest, dividend and royalties, obtaining approvals and permits needed by the project and ensuring that sufficient Rupiah funds will be available to cover Rupiah expenditures under the work program and budget. Pertamina holds title to all non-leased capital equipment, inventory and data from hydrocarbon operations. The responsibilities of a contractor under a TAC include advancing necessary funds, furnishing technical aid and preparing and executing the POD and budget. In return, the contractor may freely lift, dispose of and export its share of crude oil and retain abroad its proceeds obtained from its share. After a period of five years starting the month of the first delivery of crude oil produced from each new field in the contract area, the contractor will typically have a domestic market obligation to account for a portion, not generally exceeding approximately 7% to 8% of the crude oil produced from the contract area, at a specific price. This price is 15% of market price calculated at the point of export. The domestic market obligation does not apply to natural gas production. The contractor generally has the right to recover all costs, defined as "operating costs" in each TAC, against available revenues generated by the TAC. Operating costs consist of current year non-capital costs, current year depreciation on capital costs and current year allowed recovery of prior year's unrecovered operating costs. Non-capital costs relate to costs incurred with respect to current year's operations, the cost of geological and geophysical activity and the intangible costs of drilling exploratory, delineation and development wells. Capital costs include expenditures for items which have useful lives in excess of one year and are depreciated commencing in the year the asset is placed into service at rates which vary depending on the type of asset, but generally results in the asset being fully depreciated within five to seven years. Exploration and development costs in a contract area are "ring-fenced", meaning that expenditures in nonproducing or underproducing TACs cannot be offset against revenues from other TACs. However, within any one TAC, these unrecovered costs can be carried forward to future years for cost recovery purposes. Under the Corridor Block TAC, cost recovery is limited to 35% of total production per year. Before deducting operating costs, the contractor may typically recover an investment credit amounting to a fixed percentage of the capital investment cost directly required to develop crude oil production facilities (including new secondary recovery projects), subject to certain restrictions.

Post cost recovery, Pertamina is entitled to a 65% after-tax profit share of natural gas production and on 85% after-tax profit share of crude oil production. The contractor is obligated to pay Indonesian corporate taxes on its specified profit share at the Indonesian corporate tax rate in effect at the time the TAC is executed. The contractor's pre-tax profit share is generally the rate that will provide to it an after-tax profit share of 15% in the case of oil production and 35% in the case of gas production based on the corporate tax rate that applies to the specific TAC.

If Pertamina and the contractor consider the processing and utilization of any natural gas produced under the TAC to be economical, then the construction and installation of facilities for such processing and utilization will be carried out pursuant to an approved work program and budget, with all costs and revenue treated as set forth above. If the contractor considers that the processing and utilization of natural gas is not economical, then Pertamina may choose to take and utilize the natural gas which would otherwise be flared and is liable for all associated costs.

All crude oil sold by the contractor to third parties is valued at the net realized price, freight on board, Indonesia received by the contractor. If a more favourable net realized price is available to Pertamina for crude oil sold by the contractor to third parties, other than the contractor's share of production, then the contractor must meet such price if notified by Pertamina, or Pertamina can choose to market the crude oil itself.

The contractor is obligated to pay a compensation bonus to Pertamina upon approval by the Indonesian government of the TAC and production bonuses after specified daily production goals for the contract area have been reached. Pertamina has the right to demand that a 10% undivided interest in the total rights and obligations under the Pilona be offered to itself. In return, Pertamina must reimburse the contractor for an amount equal to 10% of the sum of the costs incurred under the TAC to the date of the demand, including 10% of the compensation bonus and production bonuses previously paid by the contractor to Pertamina. These amounts can be paid directly in cash or through production installments. All payments to be made under the TAC to Pertamina, the Indonesian government or the contractor must be made in U.S. dollars or in other currency acceptable to the payee. However, the contractor may make payments to Pertamina or the ROI in Rupiah to the extent that such currency is realized as a result of the domestic sale of crude oil or natural gas.

Disputes arising between the contractor and Pertamina pursuant to the TAC are submitted to arbitration under the Rules of Arbitration of the Budan Arbitrasi Nusional Indonesia for the Pilona TAC and of the International Chamber of Commerce for the GEPS. The TAC is governed by the laws of ROI. Either party has the right to terminate the TAC on 90 days' written notice if a major breach of the TAC is committed by the other party, provided that conclusive evidence of such breach is found through arbitration or a final court decision. To the Corporation's knowledge, no TAC has been terminated in Indonesia.

Indonesia is a civil law jurisdiction based on a code derived from the Code Napoleon. The Indonesian Civil Code stipulates that contracts must be performed and enforced in accordance with principles of fairness and good faith.

CANADIAN FEDERAL TAX IMPLICATIONS

In the opinion of Bennett Jones, counsel to the Corporation, the following is a summary of the principal Canadian federal income tax consequences generally applicable to persons who have acquired Special Warrants pursuant to the Special Warrant Indenture and will acquire and dispose of Common Shares and Warrants issuable on the exercise of the Special Warrants and who, for the purposes of the *Income Tax Act* (Canada) (the "Tax Act"), are resident in Canada, hold such Special Warrants, Common Shares and Warrants as capital property, and deal at arm's length with the Corporation.

In general, the Special Warrants, Common Shares and Warrants will be treated as capital property to a holder where the holder is neither a trader nor dealer in securities, does not hold the securities in the course of carrying on a business and is not engaged in an adventure in the nature of trade in respect thereof. In certain limited circumstances, Special Warrants, Common Shares and Warrants which would not otherwise qualify as capital property to a holder will be deemed to so qualify if the holder has made an irrevocable election in respect of all "Canadian securities," as defined in the Tax Act, held or to be held by the holder. In addition, certain "financial institutions" are generally deemed not to hold shares of corporations as capital property, and such persons should consult their own tax advisors with respect to the income tax consequences of acquiring and disposing of Special Warrants, Common Shares and Warrants.

This summary is based on the current provisions of the Tax Act, the regulations thereunder and counsel's understanding of the current administrative and assessing practices of Revenue Canada. Except for the specifically-proposed amendments to the Tax Act that have been publicly announced by the Minister of Finance prior to the date hereof, this summary does not take into account or anticipate changes in the income tax law or the administrative practice of Revenue Canada. This summary is not exhaustive of all Canadian federal income tax considerations nor does it take into account or anticipate any provincial, territorial or foreign tax considerations.

This summary is for general information only. It is not intended to be, and it should not be construed to be, legal or tax advice to any particular person. The income tax consequences relating to

any particular person will vary depending upon a number of factors, including the particular province in which the person resides, carries on business or has a permanent establishment, the amount of the person's taxable income and the legal characterization of the person as an individual, corporation, trust or partnership. Accordingly, persons who have acquired Special Warrants and will exercise such warrants and will thereby acquire Common Shares and Warrants should consult with their own tax advisors to determine the particular tax consequences to them of the transaction, including the application and effect of income and other tax laws of any country, province, state or local authority.

Disposition or Exercise of Special Warrants

The Special Warrants acquired pursuant to the Special Warrant Indenture will have a cost for tax purposes equal to the amount paid on the purchase thereof of $0.50 per Special Warrant. Any subsequent disposition or deemed disposition of the Special Warrants by a holder (other than upon an exercise thereof to acquire Common Shares and Warrants) will result in the realization of a capital gain (or a capital loss) equal to the amount by which the holder's proceeds of disposition, net of all reasonable costs associated with the disposition, are greater than (or less than) the holder's adjusted cost base of such Special Warrants. A holder will be required to include in income for the taxation year of any such disposition three-quarters of the amount of any such capital gain (a "taxable capital gain") and will generally be able to deduct three-quarters of the amount of any such capital loss (an "allowable capital loss") against taxable capital gains realized by the holder in the current taxation year, in any of the three preceding taxation years or in any future taxation year.

A holder will not realize a gain or loss upon the exercise or deemed exercise of Special Warrants to acquire Common Shares and Warrants. On any such exercise, the holder will be required to allocate the cost of the Special Warrants so exercised on a reasonable basis between the Common Shares and Warrants so acquired in order to determine the respective cost of the Common Shares and Warrants for tax purposes. The administrative practice of Revenue Canada is that the allocation made by the issuer and that made by the holder must be the same. The Corporation is of the view that the entire cost of the Special Warrants should be allocated to the purchase of the Common Shares and that no amount should be allocated to the Warrants. Such allocation will not be binding on Revenue Canada or a holder.

The adjusted cost base of any Common Shares acquired on the exercise of Special Warrants must be averaged with the adjusted cost base of any other Common Shares held by the holder as capital property for the purposes of calculating capital gains (or capital losses) on subsequent dispositions of such shares.

Disposition of Common Shares

A disposition or deemed disposition of Common Shares acquired on the exercise of the Special Warrants will generally result in the holder realizing a capital gain (or a capital loss) equal to the amount by which the holder's proceeds of disposition, net of all reasonable costs associated with the disposition, are greater than (or less than) the holder's adjusted cost base of such Common Shares. A holder will be required to include in income any such capital gain or capital loss in the manner and subject to the rules described above.

Warrants

No gain or loss will be realized by a holder of Warrants upon the exercise of such Warrants. When Warrants are exercised, the initial cost of the Common Shares acquired on the exercise of the Warrants will be the aggregate of the adjusted cost base of the Warrants so exercised and the exercise price paid for the Common Shares. The adjusted cost base of any Common Shares acquired on the exercise of Warrants must be averaged with the adjusted cost base of any other Common Shares held by the holder as capital property for the purposes of calculating capital gains (or capital losses) on subsequent dispositions of such shares.

If a holder of Warrants otherwise disposes of Warrants, a capital gain or capital loss will be realized. A holder will be required to include in income any such capital gain or capital loss in the manner and subject to the rules described above.

Minimum Tax

Pursuant to the Tax Act, the tax otherwise payable by an individual (other than certain trusts) will not be less than a minimum amount computed by reference to the individual's adjusted taxable income for the year. In calculating adjusted taxable income for these purposes, certain deductions and credits otherwise available are disallowed and certain amounts which are otherwise not taxable are included in income. The non-taxable portion of a capital gain (one-quarter) is included in adjusted taxable income. Whether and to what extent a particular holder will be subject to minimum tax will depend upon the amount of the holder's income, the sources from which it is derived and the nature and amount of any deductions that are claimed. Any additional tax payable for a year resulting from the application of the minimum tax provisions is recoverable to the extent the tax otherwise determined exceeds the minimum amount for any of the following seven taxation years.

RISK FACTORS

The securities offered hereby should be considered highly speculative due to the nature of the Corporation's business and the present stage of its development. A prospective investor should consider carefully the risk factors set out below. In addition, prospective investors should carefully review and consider all other information contained in the prospectus before making an investment decision. **An investment in securities of the Corporation should only be made by persons who can afford a significant or total loss of their investment.**

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Future price fluctuations in world oil prices will have significant impact upon the projected revenue of the Corporation, the projected return from and the financial viability of the Corporation's existing and future reserves.

In addition to establishing markets for its oil and natural gas, the Corporation must also successfully market its oil and natural gas to prospective buyers. Numerous factors will affect the ability of the Corporation to market its oil and natural gas, including the prevailing world oil price, current demand and supply and the quality and quantity of the oil and natural gas being sold. The Corporation has limited direct experience in the marketing of oil and natural gas.

The absence of a natural gas transmission and distribution infrastructure within Indonesia and between Indonesia and Singapore has restricted consumption of Indonesian natural gas. The Corporation's ability to explore for, develop and market gas in Indonesia may be limited by the lack of Indonesian infrastructure.

Indonesian Operations

Approximately 35% of the Corporation's business is regulated by the laws and regulations of Indonesia, including those relating to the development, production, marketing, pricing, transportation and storage of natural gas and crude oil, taxation and environmental and safety matters. The Corporation may be adversely affected by changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting Indonesia which are not within the control of the Corporation including, among other things, a change in crude oil or natural gas pricing policy, the risks of war, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, international monetary fluctuations and currency controls. See "Risk Factors - Exchange Rate Fluctuations."

Foreign operations also subject the Corporation to risks relating to changes in foreign government policies and policy changes by the governments of Canada and the United States in respect of such foreign governments. Any such policy changes may have a material adverse effect upon the Corporation's foreign operations. The Corporation's existing commercial arrangements are, and future ventures may be, subject to complex legal and contractual relationships and the effectiveness of enforcement of such contracts and relationships with parties in these jurisdictions is not known and cannot be assured. The business practices in Indonesia may differ from those in North America and may effect the cost of operations.

All of the Corporation's crude oil production in Sumatra is sold at a price determined by the Indonesian government. The Indonesian government has exercised and continues to exercise significant influence over many aspects of the Indonesian economy, including the oil and gas industry, and any Indonesian government action concerning the economy could have a material adverse effect on private sector entities, including the Corporation. In response to the recent devaluation of the Rupiah, the Indonesian government announced in September 1997 that it was postponing or reviewing the development of several infrastructure projects, including a number of independent power projects. While the Corporation does not believe that it will be adversely affected by the postponements or reviews announced to date, there is no assurance that the Indonesian government will not postpone or review additional projects or will not make changes in government policies, in each case which could adversely affect the Corporation's financial position, results of operations or prospects.

There can be no assurance that transitions in governmental control will occur in accordance with specified constitutional procedure or that the current or a successor administration will not implement policies which could have a material adverse effect upon Indonesia's economy or upon the operations of the Corporation. There has been civil unrest in certain areas in Indonesia which could result in government instability or civil conflict that could adversely affect the business climate in Indonesia and the Corporation's business. A change in government in Indonesia could adversely affect the Corporation's existing contractual relationships with Indonesian governmental agencies and its ability to conduct business in Indonesia.

Exchange Rate Fluctuations

The Corporation is exposed to foreign exchange risks since the majority of its Indonesian revenue is expected to be received in or by reference to U.S. dollar denominated prices while the majority of its expenditures are in Canadian dollars. The exchange rate between Canadian dollars and U.S. dollars has varied substantially in the last five years.

Approximately 35% of the Corporation's revenues will be denominated in U.S. dollars, and a corresponding portion of the Corporation's expenses are denominated in U.S. dollars. While the Corporation's exposure to currency risk is limited, a significant decline in the value of the Rupiah against the U.S. dollar could affect the financial condition and results of operations of the Corporation in Indonesia. The Rupiah has been subject to devaluations in the past and may be subject to devaluation in the future. The Indonesian government's economic policies and any significant future devaluation of the Rupiah against the U.S. dollar could affect the value of an investment in securities of companies doing business in Indonesia, such as the Corporation.

There can be no assurance that the floating exchange policy of the Indonesian Central Bank will continue or that additional devaluations in the Rupiah will not occur. In addition, the devaluation of the Rupiah could adversely affect economic growth in Indonesia, but the Corporation is not able to determine the extent of any such adverse affect on economic growth. Currently, the Corporation does not undertake any currency or commodity trading or hedging.

Governmental Regulation

The oil and gas industry is particularly subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, royalties and the exportation of oil and natural gas. Such regulation may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase the Corporation's costs and have a material adverse effect on the Corporation.

Relationship with Pertamina

Under Indonesian law, Pertamina, the Indonesian state owned oil and gas Corporation, is the sole entity authorized to manage Indonesia's petroleum resources on behalf of the Indonesian government. See "Regulatory Environment - Indonesia". All of the Corporation's reserves in Indonesia are attributable to TACs which contain requirements regarding quality of service, capital expenditures, legal status of the concessionaires, restrictions on transfer and encumbrance of assets and other restrictions. Failure to comply with these arrangements could result, under certain circumstances, in the revocation of a production sharing arrangement. Such an action could have a material adverse effect on the Corporation's financial condition, results of operations or prospects. In addition, the Corporation must obtain approval from Pertamina for substantially all material activities undertaken with respect to the TACs, including exploration, development, production, drilling and other operations, sale of oil or natural gas and the hiring or termination of personnel. Furthermore, all facilities and equipment purchased by the Corporation and used in a contract area become the property of Pertamina, although the Corporation may recover such costs through the cost recovery provisions of the applicable TACs. The Corporation's results of operations will continue to be materially affected by its relationship with Pertamina.

Substantial Capital Requirements; Liquidity

The Corporation makes, and will continue to make, substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves. If the Corporation's revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects. The Corporation will require additional financing to cover the estimated capital expenditures necessary to achieve future projected cash flow attributable to its Indonesian production sharing arrangements.

Uncertainty of Reserve Estimates

This prospectus includes estimates made by management of the Corporation, Ryder Scott and GLJ of the Corporation's oil and gas reserves and the present value of such reserves. There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Corporation. The reserve data set forth in this prospectus represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from such estimates, and such variances could be material.

In accordance with applicable requirements of the securities commissions of the Filing Jurisdictions, the information included in this prospectus regarding the present value of future net cash flows from estimated proved reserves is based on prices and costs as of the date of the estimate without escalation, unless such prices or costs are contractually determined at such date. Actual future prices and costs may be materially higher or lower. Actual future net cash flows also will be affected by factors such as actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

The reserve and net present value estimates included in this prospectus could be materially different from the quantities and values ultimately realized.

Exploration, Development and Production Risks

The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce additional oil and natural gas reserves. Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Corporation will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the Corporation's production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-in of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The Corporation's operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of the these risks could have a materially adverse effect on the Corporation's results of operations, liquidity and financial condition. The Corporation may become subject to liability for pollution, blow-outs or other hazards. The Corporation insures with respect to these hazards to industry standards. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. The payment of such uninsured liabilities would reduce the funds available to the Corporation.

The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Competition

The Corporation actively competes for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Corporation. The Corporation's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators. The oil and gas industry is highly competitive. The Corporation's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Corporation. Certain of the Corporation's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Corporation's ability to sell or supply oil or gas to these customers in the future. The Corporation's ability to successfully bid on and enter into new production sharing arrangements or otherwise acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon a continuation of its close working relationships with its partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with the Corporation's operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

The Pilona TAC requires Pilona to conduct an environmental baseline assessment at the beginning of Pilona's operations. The Pilona TAC also requires Pilona to take the necessary precautions to protect the environment and to perform the necessary restoration activities upon the cessation of operations. Expenditures incurred by Pilona are recoverable as operating costs in accordance with the terms of the Pilona TAC. Pilona intends to comply with the environmental requirements of the Pilona TAC.

Corporate Matters

To date, the Corporation has not paid any dividends on its outstanding Common Shares and does not anticipate the payment of any dividends on the Common Shares for the foreseeable future. Certain of the directors and officers of the Corporation are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the *Business Corporations Act* (Alberta).

Dilution

Investors in the Special Warrants will experience dilution in their net tangible book value per share of $0.27 or 54%. See "Dilution."

Permits and Licences

The operations of the Corporation may require licences and permits from various governmental authorities. There can be no assurance that the issuer will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects.

Year 2000

As the year 2000 approaches, Equatorial is exposed to risk related to malfunction of computer software and hardware. This business risk results from the normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. It is possible that some systems may fail or create erroneous data on or before January 1, 2000 as a result of a misinterpretation of the year field. Equatorial and its management are currently addressing the year 2000 issue by reviewing field inventory and systems to assess date sensitive risks, if any, by conferring with industry and joint venture partners on operational risks and by requesting from each hardware and software supplier confirmation that their systems are year 2000 compliant. Equatorial's Canadian and Indonesian operations are Y2K compliant. To date, Equatorial has expended nominal amounts on Y2K contingency planning and expects to expend nominal amounts on Y2K contingency planning prior to December 31, 1999. Equatorial is exposed to third party risk through its reliance in Indonesia on the systems of Pertamina, the Indonesian national oil and gas corporation, and on the systems of its suppliers and working interest parties.

Insurance

As with any oil or gas property, there can be no assurance that oil or gas will continue to be produced from the Corporation's properties. Although the third party operators of the Corporation's properties maintain insurance in amounts customary in the industry for liability and property damage on behalf of the working interest participants, the Corporation may suffer losses from uninsurable hazards or from hazards which the Corporation may choose not to insure against because of high premium costs or other reasons.

Performance Requirements

The Corporation has entered, and from time to time may enter, into agreements directly or indirectly with governments or governmental agencies of foreign countries. The Pilona TAC is an example of such an agreement. Such agreements generally contain dates by which certain obligations must be met. The failure to meet or satisfy such obligations may result in the termination of certain exclusive permissions granted therein to the Corporation. There is no guarantee that all such obligations will be met on a timely basis or that extension of time by which such obligations are required to be fulfilled will be obtained. Under the Pilona TAC, Pilona is required to make development expenditures in respect of the oilfields. While the Corporation believes that Pilona is currently meeting all of its obligations under the Pilona TAC as they fall due, its continuing ability to fulfil such obligations is dependent upon the Corporation's ability to obtain additional financing. Failure by Pilona to fulfil its obligations under the Pilona TAC in a timely manner may put Pilona's interest in the oilfields at risk of forfeiture.

Capital Structure

The Corporation has a complex capital structure and a high level of debt. An increase in interest rates over the short or long term could have a negative impact on the Corporation's ability to meet short term and long term interest and principal payment obligations on existing debt of the Corporation. Various events, including default on interest, principal or dividend payment obligations, trigger a default under one or more, simultaneously or otherwise, of the outstanding agreements of the Corporation. Default under such agreements may have a potentially detrimental effect on current and future holders of Common Shares including further dilution, a change of control of the board of directors of the Corporation and up to loss of their investment.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed elsewhere in this prospectus, none of the directors, officers and principal shareholders of the Corporation, nor any associate or affiliate of the foregoing have any interest, direct or indirect, in any transaction, since the incorporation of the Corporation, or in any proposed transaction which has materially affected or would materially affect the Corporation, or its subsidiaries. Henry Sykes, currently a director of Equatorial, holds the position of Senior Vice President, Business Development and General Counsel at Gulf Canada. Peter Meredith, currently a director of Equatorial, directs the financial reporting treasury function of the Ivanhoe group of companies.

MATERIAL CONTRACTS AND REPORTS

The Corporation has not entered into any contracts material to investors in the Special Warrants within two years, other than contracts in the ordinary course of business, except:

1. the Agency Agreement;
2. the Warrant Indenture;
3. the Special Warrant Indenture;
4. the Credit Facility;
5. the FDM Note 1;
6. the Ivanhoe Note;
7. the Linyi Note;
8. the Voting Trust Agreements;
9. the Pilona TAC agreement referred to under "Business and Properties of the Corporation - Indonesia - GEPS TAC";
10. the Purchase and Sale Agreement dated January 22, 1999, as amended, between Gulf Canada and Equatorial relating to the Gulf Acquisition;

Copies of the above agreements, the GLJ Canada Report, the GLJ Indonesia Report and the Ryder Scott Report will be available for inspection at the offices of the Corporation at 1000, 521 - 3rd Avenue S.W., Calgary, Alberta and at the offices of Bennett Jones, Suite 4500, 855 - 2nd Street S.W., Calgary, Alberta T2P 4K7 during ordinary business hours while the securities offered by this prospectus are in the course of distribution and for a period of 30 days thereafter. Copies of the GLJ Report and the Ryder Scott Report are available or can be requested for examination at the offices of the Alberta Securities Commission, the Ontario Securities Commission and the British Columbia Securities Commission during ordinary business hours at any time.

DILUTION

The issue price of each Special Warrant exceeds the net tangible book value per Common Share as at December 31, 1998, after giving effect to the issue of 17,580,000 Common Shares upon the exercise of the Special Warrants, by $0.27, representing dilution of 54%, as indicated in the following table:

Issue Price per Special Warrant	$0.50
Net tangible book value per Common Share before distribution of Special Warrants	$0.14
Increase in net tangible book value per share attributable to the issuance of Common Share on exercise of Special Warrants	$0.09
Net tangible book value per Common Share after distribution of Special Warrants	$0.23
Dilution of net tangible book value per Common Share to holders of Special Warrants	$0.27
Percentage of dilution in relation to price	54%

Dilution has been calculated with reference to the net tangible book value of the Corporation's net assets, including its oil and gas properties, which are shown at cost (net of depreciation, depletion and site restoration costs) on the Corporation's balance sheet and does not assume the exercise of the Warrants. **Net tangible book value, which is calculated based upon historical costs, may not be indicative of fair market value.**

LEGAL PROCEEDINGS

By Statement of Claim dated October 23, 1998, PT Permindo Tubularta Ltd. ("Permindo") commenced action against Equatorial and Pilona claiming amounts owing pursuant to a drilling agreement (the "Drilling Agreement") dated December 1, 1997 and made between Permindo and Pilona. The action is #9801-14343 in the Court of Queen's Bench of Alberta, Judicial Centre of Calgary. As a result of wells drilled by Permindo on behalf of Pilona in the Republic of Indonesia, Permindo claims to be entitled to the Canadian equivalent of U.S.$1,659,407.17. Permindo claims that as Pilona is the wholly-owned subsidiary of Equatorial, Equatorial is answerable for the indebtedness of Pilona pursuant to the Drilling Agreement. Statements of Defence have now been filed by Equatorial and Pilona and discussions are underway with respect to dates for examination for discovery which will likely be held before the summer of 1999.

PROMOTERS

G. Marshall Abbott may be considered to be the promoter of the Corporation as he took the initiative in reorganizing the Corporation and its business. The promoter has not received anything of value from the Corporation except as disclosed in this prospectus.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are Deloitte & Touche, LLP, 2400 Scotia Centre, 700 - 2nd Street S.W., Calgary, Alberta T2P 0S7. The auditors of the Corporation for the year ended December 31, 1996 were BDO Dunwoody, Chartered Accountants, of Vancouver, who were appointed to act in such capacity on April 10, 1996. BDO Dunwoody tendered its resignation as auditor on March 13, 1997 and the directors of the Corporation appointed Deloitte & Touche LLP, as the auditors for the 1997 fiscal year. Shareholders of the Corporation approved such appointment at the annual and special meeting of shareholders held on April 17, 1997.

The registrar and transfer agent for the Common Shares of the Corporation is Montreal Trust Company of Canada, at its principal office in the cities of Calgary, Alberta and Toronto, Ontario.

LEGAL MATTERS

Certain legal matters relating to the distribution of the Common Shares pursuant to this Offering will be passed upon on behalf of the Corporation by Bennett Jones, Calgary, Alberta and on behalf of the Agent by Osler, Hoskin & Harcourt, Calgary, Alberta. As at March 25, 1999, the partners and associates of Bennett Jones own less than one percent of the issued and outstanding Common Shares. As at March 25, the partners and associates of Osler, Hoskin & Harcourt own less than one percent of the issued and outstanding Common Shares.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces and territories securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchasers, but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of their province or territory. The purchaser should refer to any applicable provisions of the securities legislation of his province or territory for the particulars of these rights or consult with a lawyer.

CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of a Special Warrant who acquires Common Shares and Warrants upon the exercise of a Special Warrant as provided for in this prospectus, is or becomes entitled under applicable legislation to the remedy of rescission by reason of this prospectus or any amendment hereto containing a misrepresentation, the holder shall be entitled to rescission not only of the holder's exercise of its Special Warrant but also of the private placement transaction pursuant to which the Special Warrant was initially acquired, and shall be entitled, in connection with such rescission, to a full refund of all consideration paid to the Corporation on the acquisition of the Special Warrant. In the event the holder is a permitted assignee of the interest of the original Special Warrant subscriber, that permitted assignee shall be entitled to exercise the rights of rescission and refund described herein as if the permitted assignee was the original subscriber. The foregoing is in addition to any other right or remedy available to a holder of a Special Warrant under section 168 of the *Securities Act* (Alberta), section 130 of the *Securities Act* (Ontario), section 114 of the *Securities Act* (British Columbia) and similar sections of other applicable securities legislation or otherwise at law.

Auditors' Report

To the Directors of
Equatorial Energy Inc.:

We have audited the consolidated balance sheets of **Equatorial Energy Inc**. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these, consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 25, 1999

Chartered Accountants

Auditors' Report

To the Directors of
Equatorial Energy Inc. (formerly Australian Oilfields Pty. Ltd.):

We have audited the consolidated statements of operations and deficit and changes in financial position of **Equatorial Energy Inc. (formerly Australian Oilfields Pty. Ltd.)** for the year ended December 31, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations and the changes in financial position of the Corporation for the year ended December 31, 1996 in accordance with generally accepted accounting principles.

Vancouver, Canada
January 29, 1997

Chartered Accountants

EQUATORIAL ENERGY INC. (formerly Australian Oilfield Pty. Ltd.)

Consolidated Balance Sheets - December 31

	1998 **$**	1997 $
ASSETS		
CURRENT		
Cash	**5,459,728**	9,124,645
Cash held in trust (Notes 3 and 10)	**183,972**	357,625
Accounts receivable	**4,469,318**	105,453
Asset held for resale	**918,720**	-
	11,031,738	9,587,723
PETROLEUM AND NATURAL GAS INTERESTS, full cost method (Note 6)	**37,257,253**	15,996,076
	48,288,991	25,583,799
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**7,913,511**	1,207,990
Income taxes payable	**1,215,185**	-
Current portion of long-term debt (Note 7)	**1,533,300**	-
	10,661,996	1,207,990
LONG-TERM DEBT (Note 7)	**25,042,011**	-
DEFERRED INCOME TAXES	**6,504,407**	-
CONTINGENT LIABILITY (Note 10)		
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Authorized		
Unlimited number of common shares without par value		
Unlimited number of preferred shares without par value		
Issued		
43,065,736 (1997 – 27,165,646) common shares	**32,047,339**	25,977,602
Deficit	**(25,966,762)**	(1,601,793)
	6,080,577	24,375,809
	48,288,991	25,583,799

See accompanying notes to the consolidated financial statements.

ON BEHALF OF THE BOARD

(signed) "G. Marshall Abbott", Director

(signed) "David N. Matheson", Director

EQUATORIAL ENERGY INC. (formerly Australian Oilfields Pty. Ltd.)

Consolidated Statements of Operations and Deficit – Years Ended December 31

	1998 **$**	1997 $	1996 $
REVENUE			
Gross oil revenue	**5,501,605**	-	-
Government take	**(2,910,464)**	-	-
Net oil revenue	**2,591,141**	-	-
EXPENSES			
Write-down of petroleum and natural gas interests (Note 6)	**19,096,394**	-	-
Operating expenses	**2,847,037**	-	-
Depletion and depreciation	**2,468,232**	26,838	3,563
General and administrative expense	**1,423,214**	1,184,865	516,349
Interest and bank charges	**845,965**	8,671	5,718
Storage costs – asset held for resale	**76,510**	-	-
Interest revenue	**(167,243)**	(122,751)	(29,823)
Foreign exchange (gains) loss	**366,001**	(44,252)	25,853
	26,956,110	1,053,371	521,660
LOSS BEFORE TAX	**(24,364,969)**	(1,053,371)	(521,660)
Income tax (Note 11)	-	-	-
NET LOSS	**(24,364,969)**	(1,053,371)	(521,660)
DEFICIT, BEGINNING OF YEAR	**(1,601,793)**	(548,422)	-
Adjustment on acquisition of oil and gas interest	-	-	(26,762)
DEFICIT, END OF YEAR	**(25,966,762)**	(1,601,793)	(548,422)
Loss per share	**(0.82)**	(0.07)	(0.07)

See accompanying notes to the consolidated financial statements.

EQUATORIAL ENERGY INC. (formerly Australian Oilfields Pty. Ltd.)

Consolidated Statements of Changes in Financial Position – Years Ended December 31

	1998 **$**	1997 $	1996 $
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net loss for the period	**(24,364,969)**	(1,053,371)	(521,660)
Items not affecting cash:			
Write-down of petroleum and natural gas properties	**19,096,395**	-	-
Depreciation and depletion	**2,468,232**	26,838	3,563
Funds used in operations	**(2,800,342)**	(1,026,533)	(518,097)
Changes in non-cash working capital:	**3,778,822**	759,157	343,380
	978,480	(267,376)	(174,717)
FINANCING ACTIVITIES			
Issue of debt on purchase of subsidiaries (Note 3)	**24,575,311**	-	-
Issue of securities on purchase of subsidiaries (Note 8)	**2,790,000**	2,292,556	4,444,000
Issue of common shares, for cash (net of issue expenses)	**3,279,737**	16,599,528	2,581,340
Issue of convertible debenture	**2,000,000**	-	-
Amount payable for purchase of subsidiary	**639,853**	-	-
Loan (repayments) proceeds	**-**	(685,300)	615,300
	33,284,901	18,206,784	7,640,640
INVESTING ACTIVITIES			
Net assets acquired on purchase of subsidiaries (Notes 3 and 4)	**(29,229,075)**	(2,300,000)	(6,267,425)
Petroleum and natural gas interests	**(8,872,876)**	(6,240,962)	(1,174,852)
Net assets acquired on purchase of Linden Explorations Inc. (Note 5)	**-**	-	60,158
	(38,101,951)	(8,540,962)	(7,382,119)
(DECREASE) INCREASE	**(3,838,570)**	9,398,446	83,804
CASH AND CASH IN TRUST, BEGINNING OF YEAR	**9,482,270**	83,824	20
CASH AND CASH IN TRUST, END OF YEAR	**5,643,700**	9,482,270	83,824

See accompanying notes to the consolidated financial statements.

1. NATURE OF BUSINESS

On May 13, 1996 Linden Explorations Inc. ("Linden") was effectively purchased by Australian Oilfields Pty. Ltd., ("the Corporation" - formerly 675533 Alberta Ltd.), a private company incorporated in Alberta, Canada on November 30, 1995. This transaction was accounted for as a reverse takeover. On May 23, 1996, Linden changed its name to Australian Oilfields Pty. Ltd. On June 10, 1997, the Corporation was continued under the laws of Alberta, Canada as Equatorial Energy Inc.

The Corporation is in the business of exploration for and development of petroleum and natural gas interests.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements are presented in accordance with generally accepted accounting principles applicable in Canada and are expressed in Canadian dollars.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries Equatorial Energy (International) Inc. ("EQII"), Pilona Petro Tanjung Lontar Ltd. ("Pilona"), Energy Process Services Ltd. ("EPS") and Auckland Investments Pty. Ltd. The consolidated financial statements also include the accounts of its 80% owned subsidiary Genindo EPS Petroleum Ltd. ("GEPS") All significant intercompany transactions and accounts have been eliminated.

(c) Cash and cash equivalents

Cash includes short-term investments with a maturity of ninety days or less at the time of issue.

(d) Petroleum and natural gas interests

The Corporation follows the full cost method of accounting for petroleum and natural gas interests whereby all costs of exploring and developing petroleum and natural gas reserves, net of government grants, are capitalized by individual country cost center. Such costs include land acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

The total carrying value of the Corporation's petroleum and natural gas interests, less accumulated depletion, is limited to the estimated future net revenue from production of proven reserves, based on unescalated prices and costs plus the lower of cost and net realizable value of unproved properties, less estimated future development costs, general and administrative expenses, financing costs and income taxes. The carrying value of unproven properties is reviewed periodically to ascertain whether impairment has occurred. Where impairment has occurred, the costs are written down to their net realizable value.

For each cost centre, the costs associated with proven reserves are depleted on the unit-of-production method based on an independent engineering estimate of proved reserves, after royalties, with natural gas converted to its energy equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil.

The Corporation provides for future estimated site restoration costs using the unit-of-production method based on costs and regulations in effect at the end of the year.

Office equipment is amortized on a straight-line basis over five years.

(e) *Government take*

Operations conducted jointly with the Indonesian national oil company ("Pertamina") are reflected in these financial statements based on the Corporation's proportionate interest in such activities. All Pertamina interests, other than income and revenue taxes, will be considered to be government take. Government take on production from Indonesian properties represents the entitlement of Pertamina to a portion of the Corporation's share of crude oil, liquids and natural gas production and will be recorded using rates in effect under the terms of contracts at the time of production.

Under the terms of each contract, the Corporation is entitled to use gross proceeds of production to recover substantially all of the non-capital costs incurred during each year as well as current year depreciation for capital costs and any costs unrecovered from prior years. Such gross proceeds of production are included in revenue before government take.

The maximum cost recovery in any year is 80% of gross revenue for the first two years of production, and depending on the production sharing contract, 65% to 80% thereafter. Pertamina and the Corporation are entitled to share the remaining oil profits based upon the terms in each contract. The Corporation's pre-tax profit share on oil production is generally the rate that will provide an after-tax profit share of 15% prior to the domestic marketing obligations described below.

After a period of five years starting the month of the first delivery of crude oil produced from each new field in the contract area, the participant will typically have a domestic marketing obligation to sell a portion, not generally exceeding approximately 7% to 8%, of the crude oil produced from the contract area, at 15% of the market price at the point of export.

(f) *Foreign currency translation*

Transactions of the Corporation and its subsidiaries that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains and losses arising on the translation of monetary assets and liabilities, are included in the determination of income (loss) for the year with the exception of unrealized gains or losses on translation of long-term monetary liabilities, which are deferred and amortized over the remaining term of such liabilities on a straight-line basis.

(g) Measurement uncertainty

Estimation of reserves in the Corporation's petroleum and natural gas interests is subject to inherent uncertainty. Since these reserve measures enter into the computation of net recoverable amount and depletion and amortization, there is uncertainty of measurement in the Corporation's petroleum and natural gas interests.

(h) Estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Fair value of financial instruments

The respective values of financial instruments approximated their fair values. These financial instruments include cash, cash held in trust, accounts receivable, accounts payable and accrued liabilities and long-term debt. Fair values were assumed to approximate carrying values for these financial instruments since they are short-term in nature and their carrying amounts approximate fair values or interest rates approximate current rates for like debt instruments.

(j) Flow-Through Shares

Under the terms of the flow-through shares, the tax attributes of the related expenditures are renounced to Subscribers. To recognize the foregone tax benefits, the carrying value of petroleum and natural gas interests and share capital are reduced by the amount of the tax benefits renounced at the time that the related expenditures are made.

3. ACQUISITION OF ENERGY PROCESS SERVICES LIMITED ("EPS")

Effective September 14, 1998, the Corporation acquired 100% of the issued and outstanding common shares of Energy Process Services Limited from First Dynasty Mines Ltd. EPS owns 80% of Genindo EPS Petroleum Ltd. ("GEPS"), which holds a production sharing arrangement called a Technical Assistance Contract ("TAC") for a producing oilfield in East Kalimantan, Indonesia.

Net assets acquired, using the purchase method of accounting for the acquisition are as follows:

Petroleum and natural gas interests	$33,952,928
Working capital	861,834
Asset held for resale (drilling rig)	918,720
Deferred income taxes	(6,504,407)
	$29,229,075

Consideration given:

Long-term debt	$24,006,000
9,000,000 common shares of the Corporation	2,790,000
Amount to be paid in cash	639,853
Cash paid	891,347
Closing expenses	901,875
	$29,229,075

Contingent consideration of $3,000,000 U.S. is payable, during the life of the TAC, when the acquired petroleum property achieves the following average daily production targets for a 30 day period:

a) 7,500 barrels of oil per day - $1,000,000 U.S. plus accrued interest
b) 10,000 barrels of oil per day - $1,000,000 U.S. plus accrued interest
c) 12,000 barrels of oil per day - $1,000,000 U.S. plus accrued interest

This consideration is secured by a promissory note due 30 days after each target is met. The additional cost represented by these notes will be recorded as petroleum and natural gas interests by the Corporation at that time. Interest at Chase Manhattan bank prime plus 3% accrues from September 14, 1998 to the due date.

At December 31, 1997, the Corporation had $357,625 ($250,000 U.S.) in trust as a deposit on this transaction.

Until September 14, 2001, the nine million common shares issued on the transaction are to be held in a "voting trust" in favor of either of two senior officers and directors of the Corporation. These shares cannot be transferred, sold or assigned by their owners until September 14, 1999, at which time all of the shares are released from these restrictions. The trust expires if both senior officers leave the Corporation, or if the Corporation's note holders elect to convert their notes under certain events of default (Note 6).

The holder of 5,516,130 of the 9 million common shares issued on the transaction will have the right to appoint a nominee to the Corporation's board for as long as that shareholder has at least 10% of the Corporation's voting shares.

Under the terms of the shareholder agreement with GEPS, the Corporation will own a 100% working interest in the TAC. Once the Corporation pays the Indonesian government take, recovers its capital expenditures and collects any interest and principal on capital funds loaned to the 20% GEPS minority interest, its working interest reverts to 80%.

4. ACQUISITION OF PILONA PETRO TANJUNG LONTAR LTD. ("PILONA")

On November 22, 1996 the Corporation acquired 75% of Pilona by acquiring 100% of the issued and outstanding common shares of Antrim International Energy Inc. ("Antrim") and directly exercising a right held by Antrim to purchase 75% of Pilona. Pilona holds a TAC with the state oil and gas company of Indonesia.

	$
Net assets acquired, using the purchase method of accounting:	
Petroleum and natural gas interests	5,932,339

	$
Consideration given:	
For purchase of Antrim	
2,080,000 common shares of the Corporation	3,224,000
Cash	35,339
	3,259,339
For purchase of Pilona	
500,000 common shares of the Corporation	1,000,000
Cash ($1,150,000 U.S.)	1,539,160
Accrued education and training bonus ($100,000 U.S.)	133,840
	2,673,000
Total cost	5,932,339

On March 14, 1997, the Corporation completed the acquisition of the remaining 25% of Pilona. Consideration for this transaction was the issuance of 1,150,000 common shares of the Corporation at a price of $2.00 each. The net assets acquired comprised petroleum and natural gas interests which were recorded at $2,300,000.

At December 31, 1998, the remaining cash consideration of $165,000 U.S. is due and is to be paid in installments of $15,000 U.S. per month.

5. ACQUISITION OF LINDEN EXPLORATIONS INC. ("LINDEN")

The acquisition by Linden has been accounted for as a reverse takeover as if it were the acquired company. At the date of acquisition, May 13, 1996, Linden was an inactive company listed on the Vancouver Stock Exchange with 3,165,646 shares outstanding.

	$
Net assets acquired, using the purchase method of accounting:	
Working capital	60,158
Consideration given, based on the book value of the net assets acquired:	
5,000,000 common shares of the Corporation	60,158

The operating results of Linden are included in the Corporation's consolidated results of operations from the date of acquisition. A summary of the financial position, operating results and changes in financial position of Linden prior to the change in control, with comparative information, is as follows:

	May 13, 1996 $
Net tangible assets	60,158
Shareholders' equity	60,158

	Period from October 1995 to May 13, 1996 $
Petroleum and natural gas sales	65,649
Gain on disposal of petroleum and natural gas interests	51,849
Operating costs	(41,186)
Depletion, depreciation and amortization	(21,100)
General and administrative expense	(38,006)
Net income (loss)	17,206
OPERATING ACTIVITIES	
Net income (loss) for the period	17,206
Depletion, depreciation and amortization	21,100
Changes in non-cash working capital	10,960
Gain on disposal of petroleum and natural gas interests	(51,849)
	(2,583)
FINANCING ACTIVITIES	
Proceeds on disposal of petroleum and natural gas interests	360,000
Issue of common shares	264,150
Conversion of preferred shares	(500,000)
Conversion of management fee payable	(78,250)
Receipt of loan receivable	56,887
Preferred share dividends	(75,000)
	27,787
INVESTING ACTIVITY	
Petroleum and natural gas interests	(21,677)
Increase in cash	3,527
Cash and cash equivalents, beginning of period	60,848
Cash and cash equivalents, end of period	64,375

6. PETROLEUM AND NATURAL GAS INTERESTS AND SEGMENTED INFORMATION

	Indonesia (proven) $	Australia (unproven) $	Trinidad (unproven) $	Other $	Total $
1998					
Petroleum and natural gas acquisitions	42,895,379	188,238	-	-	43,083,617
Petroleum and natural gas exploration and development	13,539,254	1,642,846	315,310	26,457	15,523,867
Other equipment	-	-	-	219,796	219,796
	56,434,633	1,831,084	315,310	246,253	58,827,280
Accumulated depreciation, depletion and write-downs	(19,423,000)	(1,781,084)	(315,310)	(50,633)	(21,570,027)
Petroleum and natural gas interests	37,011,633	50,000	-	195,620	37,257,253
1997					
Petroleum and natural gas acquisitions	8,594,993	188,238	-	-	8,783,231
Petroleum and natural gas exploration and development	5,198,374	1,600,786	311,561	12,500	7,123,221
Other equipment	-	-	-	107,525	107,525
	13,793,367	1,789,024	311,561	120,025	16,013,977
Accumulated depreciation, depletion and write-downs	-	-	-	(17,901)	(17,901)
Petroleum and natural gas interests	13,793,367	1,789,024	311,561	102,124	15,996,076

During 1998, management reviewed its properties and made a provision of $19,096,394 to write down the carrying value of the Pilona production sharing contract in Indonesia under a ceiling test write down and the interests in Australia and Trinidad to estimated net realizable value. The Corporation also subjected the costs related to the GEPS TAC to a ceiling test calculation which indicated that, based on December 31, 1998 oil prices, an additional ceiling test write down of $19,000,000 would be necessary. Under the provision of the CICA guideline for full cost accounting in the oil and gas industry, the Corporation has chosen to not record this write down because the costs relate principally to the acquisition of EPS, effective September 14, 1998 (within 24 months of this year end).

As at December 31, 1998, unproved properties with capitalized costs of $16,976,464 were not subject to depletion.

Substantially all of the Corporations revenues, operating expenses, rig storage costs and depletion are attributable to Indonesia. All other expenses relate to activities in Canada.

7. LONG-TERM DEBT

	$
\$13,686,500 U.S. promissory notes, due on March 28, 2001. Simple interest accrues at 10% and is paid quarterly. The interest payments for the quarters ended December 14, 1998 and March 14, 1999 will be deferred and added to the principal.	21,508,711
\$2,000,000 U.S. promissory note, with \$1,000,000 U.S. due September 14, 1999 and \$1,000,000 U.S. due September 14, 2000. Simple interest accrues at Chase Manhattan bank prime plus 3% and is paid at each calendar quarter end.	3,066,600
Debenture due on November 21, 2003. Simple interest accrues at 10% and is paid at each calendar quarter end. Each \$1,000 debenture face value is convertible into 2,800 common shares, 2,456 common shares and 2,188 common shares of the Corporation before November 20, 2001, November 20, 2002 and November 20, 2003, respectively. The Corporation has a right to call for conversion into common shares after November 20, 2000, if the Corporation's common shares trade in excess of \$1.00 for 20 consecutive days.	2,000,000
	26,575,311
Less: current portion	1,533,300
	25,042,011

The notes are issued by the Corporation's wholly owned subsidiary EQII and are secured by a pledge of the shares of EPS and a security interest in the shares of EQII. On February 26, 1999, all note holders granted priority to the Corporation's bank for all assets other than the Corporation's existing rights and interests in Indonesia .

In the event the Corporation defaults on two consecutive interest payments or defaults on the payment of principal of the notes, the unpaid principal plus accrued interest can be immediately converted, at the option of the noteholder, into common shares based upon the market price prevailing at the time of default.

On February 26, 1999 the $2,000,000 U.S. promissory note was paid in full, together with accrued interest.

The debenture is secured by a pledge of the shares of Pilona and an assignment of certain accounts receivable of Pilona. In connection with the financing, a commission of 2% was paid, and warrants to acquire 300,000 common shares for two years at $0.35 until November 20, 1999 and $0.4025 until December 20, 2000 per share were issued, to organizations controlled by two directors.

8. SHARE CAPITAL

(a) Issued

	Number of Shares	Capital Stock $
Balance at May 13, 1996 (formerly Linden)	3,165,646	2,053,674
Adjustment on consolidation	-	(1,993,516)
Issued for cash		
Private placements	2,520,000	680,400
Exercise of options	1,000,000	2,040,000
Issued on exchange of legal subsidiary shares	9,025,000	220,000
Escrow shares issued for legal subsidiary voluntarily cancelled at the request of certain shareholders	(4,025,000)	-
Issued on purchase of Antrim and Pilona (Note 4)	2,580,000	4,224,000
Common share issue expenses	-	(139,040)
Balance at December 31, 1996	14,265,646	7,085,518
Issued for cash		
On exercise on Class “A” Special Warrants	3,250,000	5,037,500
On exercise on Class “C” Special Warrants	8,500,000	12,750,000
Class “B” Special Warrants issued on purchase of subsidiary subsequently converted to common shares (Note 4)	1,150,000	2,300,000
Common share issue expenses	-	(1,195,416)
Balance at December 31, 1997	27,165,646	25,977,602
Issued for cash		
Flow- through common shares	6,750,090	3,712,550
Exercise of common share purchase warrants	150,000	52,500
Issued on purchase of subsidiary (Note 3)	9,000,000	2,790,000
Common share issue expenses	-	(485,313)
Balance at December 31, 1998	43,065,736	32,047,339

The flow-through common shares involve the renunciation of resource expenditure deductions for income tax purposes to investors in accordance with Canadian income tax legislation. At December 31, 1998 a total of $3,712,550 of Canadian Exploration Expenses have been renounced to shareholders. The related expenditures will be incurred during 1999.

Three special warrant issues were closed during 1997 for total net proceeds of $18,892,084. These were comprised of 3,250,000 Class "A" Special Warrants issued for cash at $1.55 per warrant, 1,150,000 Class “B” Special Warrants issue for the purchase of the Corporation’s remaining interest in Pilona (see Note 4) at $2.00 per warrant and 8,500,000 Class “C” Special Warrants issued for cash at $1.50 per warrant.

All special warrants were exercised prior to December 31, 1997 for no additional consideration resulting in the issuance of one common share per special warrant. Share purchase warrants issued on exercise of the Class "A" Special Warrants, expired unexercised on January 29, 1998.

On November 22, 1996, certain founding shareholders of the Corporation cancelled 4,025,000 performance escrow shares as a condition of the acquisition of 100% of Antrim International Energy Inc. and 75% of Pilona Petro Tanjung Lontar Ltd. The cancellation of the performance escrow shares was approved by the appropriate regulatory authorities in the Province of British Columbia.

(b) *Options and warrants outstanding at December 31, 1998:*

	Number	Exercise Price $	Expiry
Options			
Outstanding at December 31, 1995	-		
Granted during the period:	1,350,000	2.04	May 17, 1997
	700,000	2.51	June 17, 1997
Exercised during the period at $2.04	(1,000,000)		
Outstanding at December 31, 1996	1,050,000		
Expired during the period	(1,050,000)		
Granted during the period:	1,485,000	1.55	June 3, 2002
	75,000	1.55	August 21, 2002
	65,000	1.55	September 30, 2002
	200,000(i)	1.95	February 10, 2000
	175,000	1.90	September 29, 2002
Outstanding at December 31, 1997	2,000,000		
Cancelled during the period	(175,000)	1.90	September 29, 2002
	(35,000)	1.55	August 21, 2002
Outstanding at December 31, 1998	1,790,000		

(i) This option was issued as partial consideration for the acquisition of 75% of Pilona

	Number	Exercise Price $	Expiry
Warrants			
Outstanding at December 31, 1998	150,000	0.35	until November 20, 1999
		0.4025	until November 20, 2000

Corporation directors, officers and service providers hold all options and warrants.

(c) Loss per share

Loss per share has been calculated based on the following weighted average number of shares outstanding:

Year Ended December 31

	1998 **$**	1997 $	1996 $
Weighted average shares	**29,852,495**	14,336,331	7,381,256

9. RELATED PARTY TRANSACTIONS

The Corporation acquired its interest in its Australian petroleum and natural gas prospect during 1997 from a company controlled by a common director for $215,000 which was $26,762 greater than original cost of $188,238. The property and shareholders deficit have been adjusted to reflect the transaction as if it had occurred at original cost.

During 1997, the Corporation paid $280,358 to a company controlled by a common director, as part of a joint venture entered into in the normal course of its business.

Amounts paid to related parties for consulting fees, rent, office expenses and share issue costs were as follows:

Year Ended December 31

	1998 **$**	1997 $	1996 $
Paid to directors	**358,000**	252,000	51,970
Paid to a company with a common director	-	46,788	62,018

10. CONTINGENT LIABILITY

On October 23, 1998 a statement of claim against the Corporation and Pilona was filed in the Court of Queen's Bench of Alberta. This claim in the amount of $1,659,000 U.S. concerns a dispute over a Pilona trade payable for contract work performed in Indonesia in the ordinary course of Pilona's business. In management's opinion sufficient provision has been made for the claims that the outcome would not have a material impact on the Corporation's operations or financial position. At December 31, 1998, the Corporation also had $183,972 ($120,000 U.S.) in trust related to this claim.

11. INCOME TAXES

The potential income tax recovery differs from the amount which would be calculated based on the Indonesian tax rate of 44% which is applicable to essentially all of the Indonesian losses as follows:

Computed income tax benefit at the applicable Indonesian tax rate	$8,186,000
Less:	
Income tax impact of amounts which have no tax basis for Indonesian tax	($3,320,000)

purposes	
Potential future income tax benefit of amounts deductible for Indonesian tax purposes not recognized for accounting purposes	($4,866,000)
	$ -

Operating results of EPS from the effective date of acquisition, September 14, 1998 to December 31, 1998 have not resulted in any adjustment to deferred income taxes which were recorded by EPS prior to acquisition.

The benefit of the Corporation's Canadian losses for income tax purposes has not been recognized in the accounts. At December 31, 1998, the Corporation had losses for Canadian income tax purposes of approximately $2,842,000 of which $1,196,000 expire on December 31, 2005, $1,024,000 expire on December 31, 2004 and $622,000 expire on December 31, 2003.

12. SUBSEQUENT EVENTS

a) Purchase and sale transaction

On February 26, 1999, the Corporation purchased certain Western Canadian oil and gas properties for $72,000,000. Revenues and expenses for the properties will be recorded effective from January 1, 1999. Consideration given was as follows:

Cash of $50,000,000 net of accrued cash flow from October 1, 1998 to December 31, 1998	$45,076,007
Interest due on purchase price from October 1, 1998 to December 31, 1998	1,457,260
Convertible preferred shares (Note 12 c) ii))	12,000,000
Promissory note (Note 12 b) ii))	10,000,000
	68,533,267

b) Debt financings

i) Conventional bank loan

On February 26, 1999, the Corporation obtained a 5-year revolving term bank credit facility in the amount of $45,000,000 to facilitate the purchase of the oil and gas properties as set out in Note 12(a). Interest on the loan accrues and is paid monthly at the Corporations choice of any of the following rates: Canadian prime plus 1%, U.S. Base rate plus 1%, LIBOR rate plus 2% or Bankers' Acceptance rate plus 2%. Principal repayments of $12,000,000 are due in each of the first two years and $7,000,000 in each year thereafter. The loan is secured by a fixed and floating charge debenture and by a general security agreement.

In connection with the credit facility, the Corporation's existing U.S. note holders granted priority to the Corporation's bank for all assets other than the Corporation's existing rights and interests in Indonesia. In exchange for this, the Corporation modified the terms of its U.S. promissory note agreements as follows:

- the $2,000,000 U.S. promissory note was repaid in full;
- the maturity date for its $13,686,500 U.S. promissory note was advanced from September 14, 2001 to March 28, 2001;

- in the event of default on two consecutive interest payments or the payment of principal of the remaining notes, the unpaid principal plus accrued interest can be immediately converted, at the option of the noteholder, into common shares based on the market price prevailing at the time of default;

- the holder of a $8,388,500 U.S. note would be able to maintain a member of the Board of Directors for as long as it also owns 10% or more of the issued and outstanding voting shares of the Corporation, or until the total principal balance of the $13,686,500 U.S. notes is repaid; and

- an equity agreement which imposed a three year hold period was amended to remove the hold period for 9,000,000 common shares, issued as consideration for the purchase of EPS, to September 14, 1999.

ii) Promissory note

On February 26, 1999, a promissory note of $10,000,000 was issued to the vendor of the Western Canadian oil and gas properties which is due on the later of February 25, 2005 and one day following the repayment by the Corporation of all amounts owing under its existing bank agreements. Interest accrues and is paid quarterly at 7.2% per annum. The Corporation may pre-pay any or all of the outstanding principal and interest, but must, in certain circumstances, pay a pre-payment premium 13.33% which would decline by 2.22% per calendar year until it becomes 1.11% in 2005 and expires thereafter. At the option of the vendor, the note and any accrued interest is convertible, in the event of certain events of default, into common shares at a price of $0.5678 per share.

c) *Equity Financings*

i) Issue of Special Warrants

Subsequent to December 31,1998, and as a condition of obtaining the $45,000,000 conventional bank credit facility, the Corporation completed a private placement of 17,580,000 special warrants (the "Special Warrants") from treasury at $0.50 per Special Warrant for gross proceeds of $8,790,000.

Each Special Warrant is exercisable, at no additional cost, into one common share (the "Common Shares") and one-half of one warrant (the "Warrants") of the Company on the earlier of five days following the issuance of appropriate receipts by Canadian regulatory authorities for the Corporation's final Prospectus qualifying the distribution of the Common Shares and Warrants upon exercise of the Special Warrants, or one (1) year from the date of issue of the Special Warrants. Each whole warrant is exercisable into one Common Share, at $0.65 per share, for a period of three (3) years. If a receipt for a final prospectus is not obtained on or before May 27, 1999 from the Securities Commission in each of the Provinces of British Columbia, Alberta and Ontario, each holder of Special Warrants will be entitled to 1.1 Common Shares rather than 1 Common Share for each Special Warrant.

The Corporation's Agent for the private placement was paid an average cash commission of 5.0% of the gross proceeds and received compensation warrants which are exercisable, for no additional consideration, into one million Warrants.

ii) Issue of convertible preferred shares

On February 26, 1999, the Corporation issued 21,134,203 preferred shares at $0.5678 for total consideration of $12,000,000 to the vendor of the Western Canadian oil and gas properties. The preferred shares bear dividends at 6.5% per year and are convertible, at the vendor's option, into a maximum of 21,134,203 Common Shares on or after February 25, 2000.

The Corporation can force conversion after February 25, 2001 if the weighted average trading price of the Corporation's common shares is at least $0.8517 for ten consecutive trading days.

Redemption by the Corporation is subject to an initial redemption premium of 12%. The redemption premium would decline by 2% per calendar year until it becomes 1% in 2005 and expires thereafter.

The preferred shares also entitle the vendor to appoint one director to the Board of Directors of the Corporation.

If the Corporation fails to either pay two consecutive dividend payments or comply with certain financial covenants, the vendor can convert all or a portion of the preferred shares into common shares, based upon the market price for the Corporation's common shares prevailing at the time of default. In the event of default, the vendor shall also be entitled, until such time as the preferred shares are converted into common shares, to elect two thirds of the Corporation's Board of Directors.

13. COMMITMENT

The Corporation is committed under a lease of office premises to annual rental payments approximating $131,916 per annum for the next five years.

14. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Compilation Report

To the Directors of
Equatorial Energy Inc.

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of **Equatorial Energy Inc**. as at December 31, 1998 and the unaudited pro forma consolidated statement of revenues and operating expenses for the year ended December 31, 1998 which have been prepared for inclusion by Equatorial Energy Inc. in a prospectus to qualify for distribution common shares of Equatorial Energy Inc. upon the exercise of previously issued special warrants. In our opinion, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statement of revenues and operating expenses have been properly compiled to give effect to the transactions and assumptions described in the notes thereto.

Calgary, Alberta
March 25, 1999

Chartered Accountants

EQUATORIAL ENERGY INC.

Pro Forma Consolidated Balance Sheet – December 31, 1998
(Unaudited)

	Equatorial Energy Inc. $	Pro Forma Adjustments $	Notes	Pro Forma Consolidated $
ASSETS				
Current				
Cash	5,459,728	8,149,600	2.1	13,533,321
		45,000,000	2.2	
		(45,076,007)	2.3	
Cash held in trust	183,972			183,972
Accounts receivable	4,469,818			4,469,318
Asset held for resale	918,720			918,720
	11,031,738	8,073,593		19,105,331
PETROLEUM AND NATURAL GAS INTERESTS	37,257,258	68,533,267	2.3	105,790,520
	48,288,991	76,606,860		124,895,851
LIABILITIES				
Current				
Accounts payable and accrued liabilities	7,913,511	1,457,260	2.3	9,370,771
Income taxes payable	1,215,185			1,215,185
Current portion of long-term debt	1,533,300	6,000,000	2.2	7,533,300
	10,661,996	7,457,260		18,119,256
LONG-TERM DEBT	25,042,011	39,000,000	2.2	74,042,011
		10,000,000	2.3	
DEFERRED INCOME TAXES	6,504,407			6,504,407
SHAREHOLDERS' EQUITY				
Share Capital				
Common Shares	32,047,339	-		32,047,339
Special Warrants	-	8,149,600	2.1	8,149,600
Preferred Shares	-	12,000,000	2.3	12,000,000
Deficit	(25,966,762)			(25,966,762)
	6,080,577	20,149,600		26,230,177
	48,288,991	76,606,860		124,895,851

EQUATORIAL ENERGY INC.

Pro Forma Consolidated Statement of Revenues and Operating Expenses
For the Year Ended December 31, 1998
(Unaudited)

	Equatorial Energy Inc. $	Gulf Acquisition $	Notes	Pro Forma Consolidated $
REVENUES				
Oil and natural gas sales	5,501,605	32,957,680		38,459,285
Government take, royalties	(2,910,464)	(5,925,780)		(8,836,244)
	2,591,141	27,031,900		29,623,041
Operating expenses	2,847,037	11,998,970		14,846,007
Excess (deficiency) of revenues over operating expenses	(255,896)	15,032,930	3	14,777,034

EQUATORIAL ENERGY INC.

Notes to the Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statement of Revenues and Operating Expenses As at December 31, 1998 and for the Year Ended December 31, 1998

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated financial statements of Equatorial Energy Inc. (the "Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada.

The unaudited pro forma consolidated balance sheet has been prepared from information derived from the audited financial statements of the Corporation as at December 31, 1998, including the notes thereto.

The unaudited pro forma consolidated statement of revenues and operating expenses has been prepared from information derived from the audited financial statements of the Corporation for the year ended December 31, 1998, and from the audited financial information for the Western Canadian oil and gas properties purchased from Gulf Canada Resources Limited (the "Gulf Acquisition") for the year ended December 31, 1998.

The pro forma consolidated statements are not necessarily indicative of the results of operations that would have occurred for the year ended December 31, 1998, or the results of operations expected in 1999 and future years.

2. PRO FORMA CONSOLIDATED BALANCE SHEET

The unaudited pro forma consolidated balance sheet gives effect to the following transactions and assumptions as if they had occurred on December 31, 1998:

2.1. Issue of 17,580,000 special warrants by Equatorial subsequent to December 31, 1998 for gross cash proceeds of $8,790,000, less the total commission paid to the Corporation's agent of $440,400 and other expenses estimated to be $200,000.

2.2. Increase in long-term debt of $39,000,000 and current portion of long-term debt of $6,000,000 subsequent to December 31, 1998 to reflect the revolving term bank credit facility.

2.3. Acquisition of oil and gas properties, the Gulf Acquisition, subsequent to December 31, 1998 for consideration as follows:

Cash of $50,000,000 net of accrued cash flow from October 1, 1998 to December 31, 1998	$45,076,007
Interest due on purchase price from October 1, 1998 to December 31, 1998	1,457,260
Convertible preferred shares	12,000,000
Promissory note, included in long-term debt	10,000,000
	$68,533,267

3. PRO FORMA CONSOLIDATED STATEMENT OF REVENUES AND OPERATING EXPENSES

The pro forma consolidated statement of revenues and operating expenses gives effect to the Gulf Acquisition as set out in Note 2.3 as if the acquisition had occurred on January 1, 1998. This statement includes only those revenues and operating expenses which are directly related to the Gulf Acquisition properties, and does not include any expenses related to general and administrative costs, interest, income and capital taxes or any provisions related to depletion, depreciation or future site restoration and abandonments.

This statement includes financial information provided by the vendor of the Gulf Acquisition properties and relates only to the working interests in such properties which have been acquired by the Corporation.

Auditors' Report

To the Directors of
Equatorial Energy Inc.

We have audited the accompanying Statement of Revenues and Operating Expenses relating to the properties acquired under the Gulf Acquisition for the year ended December 31, 1998. This financial information is the responsibility of the management of Equatorial Energy Inc. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, this Statement presents fairly, in all material respects, the revenues and operating expenses of the properties acquired under the Gulf Acquisition described in Note 1 for the year ended December 31, 1998 in accordance with generally accepted accounting principles.

Calgary, Alberta
March 25, 1999

Chartered Accountants

EQUATORIAL ENERGY INC.

Statement of Revenues and Operating Expenses
For the Year Ended December 31, 1998

REVENUES	
Oil, natural gas and liquids sales	$32,957,680
Royalties	(5,925,780)
	27,031,900
OPERATING EXPENSES	11,998,970
EXCESS OF REVENUES OVER OPERATING EXPENSES	$15,032,930

EQUATORIAL ENERGY INC.

Notes to the Statement of Revenues and Operating Expenses
For the Year Ended December 31, 1998

1. BASIS OF PRESENTATION

On February 26, 1999, Equatorial Energy Inc. (the "Corporation") acquired certain Western Canadian oil and gas properties from Gulf Canada Resources Limited (the "Gulf Acquisition").

This statement has been derived from financial information provided by the vendor of the properties acquired under the Gulf Acquisition and relates only to the working interests in such properties which have been acquired by the Company.

This statement includes only those revenues and operating expenses which are directly related to the Gulf Acquisition, and does not include any expenses related to general and administrative costs, interest, income and capital taxes or any provisions related to depletion, depreciation or future site restoration and abandonments.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenues

Oil, natural gas and liquids sales are recorded when the commodities are produced.

(b) Operating Expenses

Operating expenses include all costs related to the lifting, gathering, transporting and processing of oil and natural gas and related products.

CERTIFICATE OF THE CORPORATION

Dated: April 1, 1999

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

"G. Marshall Abbott" G. Marshall Abbott Chief Executive Officer	"David N. Matheson" David N. Matheson Chief Financial Officer

On behalf of the Board of Directors

"Henry W. Sykes" Henry W. Sykes Director	"Ir K.A. Sjaiful Achmad" Ir K.A. Sjaiful Achmad Director

CERTIFICATE OF THE AGENT

Dated: April 1, 1999

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the distribution of the securities offered by this prospectus as required by Part 8 of the *Securities Act* (Alberta), Part 9 of the *Securities Act* (British Columbia) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

First Marathon Securities Limited

By: "Scott Riddell"
Scott Riddell
Vice-President and Director

The following includes the name of each person having an interest, either directly or indirectly, to the extent of not less than five percent in the capital of:

FIRST MARATHON SECURITIES LIMITED: a wholly owned subsidiary of First Marathon Inc.