

Addax Petroleum Corporation

Consolidated Financial Statements

As at December 31, 2008 and 2007 and for
the years then ended

AUDITORS' REPORT

To the Shareholders of
Addax Petroleum Corporation

We have audited the consolidated balance sheets of Addax Petroleum Corporation as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian 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 Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 26, 2009

(signed) "Deloitte & Touche LLP"
Chartered Accountants

ADDAX PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(US\$ millions)

| | As at December 31 | |
|--|--------------------------|--------------|
| | 2008 | 2007 |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (note 15) | 76 | 32 |
| Accounts receivable (notes 14 and 19) | 365 | 321 |
| Income taxes and royalties receivable (notes 11 and 15) | 291 | 79 |
| Inventories (note 12) | 248 | 129 |
| Prepaid expenses | 36 | 39 |
| | 1,016 | 600 |
| Future income taxes (note 11) | - | 7 |
| Other assets (notes 13 and 14) | 162 | 94 |
| Property, plant and equipment (note 6) | 3,646 | 2,653 |
| Goodwill | 493 | 493 |
| | 4,301 | 3,247 |
| | 5,317 | 3,847 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities (notes 14 and 19) | 756 | 554 |
| Income taxes and royalties payable (notes 11 and 15) | 153 | 112 |
| Deferred revenue | 4 | 10 |
| | 913 | 676 |
| Asset retirement obligations (note 7) | 175 | 130 |
| Future income taxes (note 11) | 316 | 125 |
| Other long-term liabilities | 6 | 7 |
| Long-term debt (notes 4 and 14) | 1,200 | 950 |
| Convertible bonds (notes 5 and 14) | 255 | 245 |
| | 1,952 | 1,457 |
| Commitments and contingencies (notes 17 and 18) | | |
| Shareholders' equity | | |
| Share capital (note 8) | 791 | 758 |
| Convertible bonds (note 5) | 56 | 56 |
| Contributed surplus | 45 | 38 |
| Accumulated other comprehensive loss | (27) | - |
| Retained earnings | 1,587 | 862 |
| | 2,452 | 1,714 |
| | 5,317 | 3,847 |

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors

(signed) "Jean Claude Gandur"
Director

(signed) "Wesley Twiss"
Director

ADDAX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(US\$ millions, except per share amounts)

| | Year ended December 31 | |
|---|-------------------------------|--------------|
| | 2008 | 2007 |
| REVENUE | | |
| Petroleum sales (note 19) | 4,607 | 3,412 |
| Royalties (note 15) | (850) | (586) |
| Net sales | 3,757 | 2,826 |
| Other income | 5 | 4 |
| Total net revenue | 3,762 | 2,830 |
| EXPENSES | | |
| Operating | 416 | 314 |
| General and administrative | 39 | 31 |
| Depletion, depreciation and accretion (notes 6 and 7) | 591 | 581 |
| Pre-acquisition and other expenses (notes 14 and 21) | 25 | 31 |
| Share-based compensation (note 8) | 40 | 36 |
| Interest on long-term debt | 64 | 85 |
| Interest on convertible bonds | 22 | 13 |
| Foreign exchange (gain) loss | (18) | 6 |
| Total expenses | 1,179 | 1,097 |
| Income before provision for income taxes | 2,583 | 1,733 |
| Provision for income taxes (notes 11 and 15) | | |
| Current | 1,373 | 1,045 |
| Future | 426 | 206 |
| | 1,799 | 1,251 |
| Net income | 784 | 482 |
| Earnings per share (note 9) | | |
| Basic | \$5.03 | \$3.10 |
| Diluted | \$4.95 | \$3.09 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(US\$ millions)

| | Year ended December 31 | |
|---|-------------------------------|-------------|
| | 2008 | 2007 |
| Net income | 784 | 482 |
| Other comprehensive loss | | |
| Unrealized loss on available-for-sale financial assets, net of tax | (27) | - |
| Comprehensive income | 757 | 482 |

See accompanying notes to the consolidated financial statements

ADDAX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(US\$ millions)

| | Year ended December 31 | |
|---|------------------------|------------|
| | 2008 | 2007 |
| Share capital | | |
| Balance, beginning of year | 758 | 739 |
| Issued during the year | 33 | 19 |
| Balance, end of year | 791 | 758 |
| Convertible bonds | | |
| Balance, beginning of year | 56 | - |
| Issued during the year | - | 56 |
| Balance, end of year | 56 | 56 |
| Contributed surplus | | |
| Balance, beginning of year | 38 | 20 |
| Share-based compensation | 25 | 22 |
| Transferred to share capital | (18) | (4) |
| Balance, end of year | 45 | 38 |
| Accumulated other comprehensive income | | |
| Balance, beginning of year | - | - |
| Other comprehensive income | (27) | - |
| Balance, end of year | (27) | - |
| Retained earnings | | |
| Balance, beginning of year | 862 | 409 |
| Net income | 784 | 482 |
| Dividends | (59) | (29) |
| Balance, end of year | 1,587 | 862 |

See accompanying notes to the consolidated financial statements

ADDAX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US\$ millions)

| | Year ended December 31 | |
|---|-------------------------------|----------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | 784 | 482 |
| Items not requiring outlay of cash: | | |
| Future income taxes | 426 | 206 |
| Depletion, depreciation and accretion | 591 | 581 |
| Share-based compensation | 40 | 36 |
| Convertible bond interest accretion | 11 | 6 |
| Foreign exchange | (2) | 6 |
| Other items | - | (4) |
| | 1,850 | 1,313 |
| Changes in non-cash working capital (note 15) | (329) | (571) |
| | 1,521 | 742 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | |
| Expenditures on property, plant and equipment | (1,776) | (1,172) |
| Change in non-cash working capital (note 15) | 209 | 127 |
| Increase in other non-current assets | (95) | (65) |
| | (1,662) | (1,110) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of long-term debt | 640 | 1,325 |
| Repayment of long-term debt | (390) | (1,205) |
| Proceeds from issuance of convertible bonds, net of issue costs | - | 294 |
| Issue costs on long-term debt | (6) | (19) |
| Dividends paid | (59) | (29) |
| | 185 | 366 |
| Net (decrease) increase in cash and cash equivalents | 44 | (2) |
| Cash and cash equivalents, beginning of year | 32 | 34 |
| Cash and cash equivalents, end of year | 76 | 32 |

See accompanying notes to the consolidated financial statements

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

1. GENERAL

Addax Petroleum Corporation ("Addax Petroleum") is an international oil and gas exploration, development and production company with a strategic focus on West Africa and the Middle East, is incorporated under the Canada Business Corporations Act.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of Addax Petroleum and all of its subsidiaries. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses arising during the reporting period. Actual results could differ from these estimates and the differences could be material.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively. In particular, the amounts recorded for depletion and depreciation of property, plant and equipment, the provision for asset retirement obligations and the test for impairment of property, plant and equipment are based on estimates of oil production rates, commodity prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

Convertible Bonds

Convertible bonds are classified as debt, net of the fair value of any conversion feature, which is recorded in shareholders' equity. Issue costs are allocated between the debt and equity components and those costs allocated to the equity element are recognized in the consolidated statements of operations in the period of issuance. The issue costs allocated to the debt element are amortized over the term of the bond, and the debt portion will accrete up to the principal balance at maturity using the effective interest method. If the convertible bonds are converted to common shares, a portion of the amount allocated to the conversion feature recorded in shareholders' equity will be reclassified to share capital along with the principal amounts converted.

Property, plant and equipment

Addax Petroleum follows the full cost method of accounting for oil and natural gas exploration and development activities whereby all costs associated with exploring for and developing oil and natural gas reserves are capitalized on a country by country cost centre basis. Such costs include expenditures on acquiring exploration and development licences, land acquisition, geological and geophysical activities, drilling and testing both productive and non-productive wells and acquiring and developing oil and natural gas reserves in place. Repairs and maintenance and operational costs that do not extend or enhance the recoverable reserves are charged to earnings. Financing and administrative costs directly

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

attributable to specific new exploration and development projects are capitalized until commercial production has commenced. Investment tax credits earned on qualifying expenditures reduce the carrying value of property, plant and equipment ("PP&E").

Gains or losses are not recognized upon the disposition of oil and natural gas properties unless such a disposition would result in a change in the depletion rate by 20 percent or more.

Capitalized costs are depleted on a unit-of-production basis based on Addax Petroleum's share of gross estimated proven reserves, before royalties, as estimated by the independent reservoir engineers. Costs of acquiring and evaluating unproved properties and certain costs associated with major development projects are not subject to depletion until proved reserves are assigned and production commences or the costs are impaired.

PP&E other than oil and natural gas properties is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated life of the assets, which ranges from 3 to 10 years.

Addax Petroleum assesses the carrying amount of its PP&E for impairment annually or as circumstances dictate. Any impairment is deemed to exist when the carrying value exceeds the estimated undiscounted future net cash flows associated with Addax Petroleum's proved oil reserves, using expected future product prices and costs. Any impairment is measured as the excess of the carrying amount over the estimated discounted future net cash flows associated with Addax Petroleum's proved and probable oil reserves using a risk-free interest rate. Reserves are determined pursuant to National Instrument 51-101, "Standards of Disclosure of Oil and Gas Activities". Impairment losses are charged to earnings in the period in which the impairment occurs.

The carrying values of unproved properties and major development projects are limited to their net realizable value and are reviewed at least annually for impairment. Any impairment is charged to earnings in the period in which the impairment occurs.

Cost centres in the pre-production stage are assessed at each reporting date to determine whether it is likely that net costs, in the aggregate, may be recovered in the future. Costs considered unlikely to be recovered are charged to earnings during the period.

Asset retirement obligations

Addax Petroleum recognizes as a liability, the estimated fair value of the future retirement obligations associated with PP&E. The fair value is capitalized and amortized over the same period as the underlying asset. The fair value is determined on the basis of independent and internal engineering and environmental studies for each well or facility. The estimate is evaluated on a periodic basis and any adjustment to the estimate is prospectively applied. As time passes, the change in the net present value of the future retirement obligation is recognized as accretion expense. The fair value of the liability and the carrying value of the related asset are also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Obligations settled during the period are charged against the liability recorded. Gains or losses on settlement are recognized in the period of settlement.

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is not amortized but is assessed for impairment annually, or more frequently as events occur that may indicate impairment.

Impairment is assessed by comparing the fair value of each reporting unit to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value then impairment of goodwill is measured by deducting the fair value of the reporting unit's individual assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill. This is compared to the amount of the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount. Addax Petroleum's reporting units are consistent with its PP&E cost centres.

Interests in joint ventures

The consolidated financial statements include Addax Petroleum's proportionate share of assets, liabilities, revenues and expenses from its joint venture activities.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less on the date of purchase.

Inventories and underlift

Inventories, including parts and consumables and crude oil inventories, and crude oil underlifts are recorded at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Foreign currency transactions

Addax Petroleum's reporting currency is the United States ("US") dollar as the majority of its transactions are denominated in this currency.

Gains and losses resulting from transactions in foreign currencies are recorded in the consolidated statement of operations at rates prevailing on the last day of the month prior to the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to US dollars at the foreign exchange rate in effect at the balance sheet date.

Income taxes

Addax Petroleum follows the liability method of accounting for income taxes under which the future tax consequences are recognized for temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period in which the change occurs.

Addax Petroleum accounts for investment tax credits ("ITCs") using the cost reduction method whereby the associated benefit arising on qualifying expenditures reduce the carrying value of PP&E and is recorded as a future income tax asset.

Certain of Addax Petroleum's contractual arrangements in foreign jurisdictions stipulate that income taxes are to be paid by the respective national oil company out of its entitlement share of production. Such amounts are included in income tax expense at the statutory tax rate in effect at the time of production.

Revenue recognition

Oil sales are recognized in the consolidated statement of operations when the significant risks and rewards of ownership have been transferred to the buyer, which typically occurs at the lifting date. Overlifts are accounted for as deferred revenue.

Production Sharing Contracts

Substantially all of Addax Petroleum's operations are conducted under production sharing contracts ("PSCs") with foreign governments. Under the PSCs, Addax Petroleum and its other non-governmental partners, if any, pay all operating and capital costs. Each PSC establishes specific terms for Addax Petroleum to recover these costs in accordance with a formula based on monthly production volumes ("Cost Recovery Oil") and to receive a share of production in excess of the Cost Recovery Oil ("Profit Oil"). For certain PSCs, Profit Oil attributable to the government includes an amount in respect of all deemed income taxes payable by Addax Petroleum under the laws of the respective country. Alternatively, certain other PSCs refer to that country's income tax law to determine income tax payable. All other government interests, other than income taxes, are considered to be royalty interests.

Financial Instruments

Addax Petroleum classifies its financial instruments into one of the following categories: held-for-trading (financial assets and financial liabilities), available-for-sale financial assets, loans and receivables, held-to-maturity investments and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets and liabilities held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. All other categories of financial instruments are subsequently measured at amortized cost using the effective interest rate method.

Cash and cash equivalents are classified as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivables and certain other assets that are financial instruments are classified as loans and receivables. Accounts payable and accrued liabilities, long-term debt and convertible bonds are classified as other financial liabilities.

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

Derivative financial instruments and commodity contracts

Gains and losses on derivative instruments that are designated as and determined to be effective hedges are recognized in other comprehensive income and recognized in income in the period of settlement as a component of the related transaction. If a derivative instrument ceases to be effective as a hedge or is terminated, hedge accounting is discontinued and future gains and losses are recognized in the consolidated statement of operations in the current period.

Derivative instruments that are not designated as hedges for accounting purposes are recorded in the consolidated balance sheet at fair value with any resulting gain or loss recognized in the consolidated statement of operations in the current period.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted per share information is calculated using the treasury stock method to determine the dilutive effect of share based compensation and other dilutive instruments. Addax Petroleum uses the treasury stock method which assumes that the proceeds received from the exercise of "in the money" stock grants and other instruments are used to re-purchase and cancel common shares at the average trading price for the period.

Comprehensive income

Comprehensive income is comprised of Addax Petroleum's net income and other comprehensive income. Other comprehensive income includes changes in the fair value of available-for-sale financial assets and is shown net of related income taxes.

Share-Based Compensation

Common shares in Addax Petroleum are awarded to employees and officers as part of the long term incentive program ("LTIP"). Share awards equally vest over a three year period beginning on grant date. The fair value of common shares granted under the program is determined based on the trading price of the common shares on the date of the grant and is amortized to share compensation expense over the vesting period. The amortization of non-vested shares is credited to contributed surplus and transferred to share capital once the shares vest and the award is granted.

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

3. CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants amended ("CICA") Handbook Section 1400, *General Standards of Financial Statement Presentation*. There were no changes required to the financial statements as a result of this change.

Effective January 1, 2008, Addax Petroleum prospectively adopted the new CICA Handbook Section 3031, *Inventories* which provides guidance regarding the measurement of inventories including the allocation of costs such as overhead and fixed production costs and allows for the reversal of previous impairments. There were no changes required to the valuation of inventory for the current or comparative period.

Effective July 1, 2008, Addax Petroleum prospectively adopted the amendments to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* which allow entities, in specified circumstances, to move financial assets out of categories that require fair value changes to be recognized immediately in net income. These assets will remain subject to impairment testing and will have extensive disclosure requirements. There are no such items in Addax Petroleum's financial statements.

Effective January 1, 2008, Addax Petroleum prospectively adopted the new CICA Handbook Sections 3862, *Financial Instruments – Disclosures* and 3863, *Financial Instruments – Presentation*. The purpose of these sections is to enhance the financial statement users' ability to evaluate:

- the significance of financial instruments on an entity's financial position, performance and cash flows;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date; and
- how the entity manages those risks.

The new standards require additional disclosure with no effect on the consolidated financial position, results of operations or cash flows in 2008.

Effective January 1, 2008, Addax Petroleum adopted the new CICA Handbook Section 1535, *Capital Disclosures* for disclosure of an entity's objectives, policies and processes for managing capital. The new standard requires additional disclosure with no effect on the consolidated financial position, results of operations or cash flows in 2008.

Future changes in accounting standards

The CICA Accounting Standards Board has adopted the following new or amended Handbook Sections:

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, ("Section 3064") replacing Sections 3062, *Goodwill and other intangible assets* ("Section 3062") and 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, Addax Petroleum will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. Addax Petroleum is

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

currently evaluating the impact of the adoption of Section 3064 on its consolidated financial statements, however, it is not expected that the adoption will have a material impact on the consolidated financial statements.

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP effective January 1, 2011 for Canadian publicly accountable enterprises. Addax Petroleum has been considering adoption in 2010, but has not seen any significant advantage of doing so, and therefore currently expects to adopt IFRS effective January 1, 2011.

The following standards were issued by the CICA during 2009 and will be effective for Addax Petroleum beginning on January 1, 2011:

Section 1582, *Business Combinations* will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, “Business Combinations” and replace the existing Section 1581, *Business Combinations*. The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests*. Addax Petroleum is assessing the impact of these new standards on its consolidated financial statements.

Section 1601, *Consolidated Financial Statements* establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, *Consolidated Financial Statements*. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1602, *Non-Controlling Interests*. Addax Petroleum is assessing the impact of these new standards on its consolidated financial statements.

Section 1602, *Non-controlling Interests* establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1601, *Consolidated Financial Statements*. Addax Petroleum is assessing the impact of these new standards on its consolidated financial statements.

4. LONG-TERM DEBT

Addax Petroleum holds a 5 year, \$1.6 billion senior secured reducing revolving debt facility (the “Facility”) arranged by BNP Paribas, Natixis and Standard Chartered Bank (the “Lenders”). The Facility consists of a \$1.3 billion loan and a \$300 million letter of credit facility. The Facility is in the form of a borrowing base loan and is subject to reductions commencing in January 2010 and is secured against a portion of Addax Petroleum’s business interests. Amounts drawn under the Facility bear interest at the Lenders’ LIBOR plus an applicable margin between 1.75% and 2.65%. At December 31, 2008, \$1 billion was drawn down on the Facility.

In April 2008, Addax Petroleum entered into a two-year unsecured loan facility bearing interest at the Lenders’ LIBOR plus 2.90%. The facility was set at an original amount of \$450 million and in September 2008 was increased to \$500 million. At December 31, 2008, \$200 million was drawn down on this loan facility.

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

The effective interest rate on long-term debt for the period ended December 31, 2008 was 6.21% (2007: 7.96%).

In addition to the funds drawn on the long-term debt, letters of credit totaling \$129 million (2007: \$134 million) related to the Nigerian and Joint Development Zone ("JDZ") assets were outstanding at December 31, 2008.

Costs incurred to arrange both the Facility and the two year unsecured loan facility have been recorded as other assets and are amortized over the term of the debt agreements.

5. CONVERTIBLE BONDS

On May 31, 2007, Addax Petroleum issued \$300 million principal amount of 3.75% unsecured convertible bonds ("the Bonds") for net proceeds of \$294 million. The Bonds have a coupon rate of 3.75% and a maturity date of May 31, 2012. The Bonds pay interest semi-annually and are convertible into Addax Petroleum common shares at the option of the bondholder at a conversion price of CDN\$56.06 per common share, at any time after October 1, 2007 until maturity on May 31, 2012. The convertible bonds include a Net Share Settlement option, allowing Addax Petroleum to settle bondholder conversions by repaying the face value of the convertible bonds in cash, and delivering the difference, between the face value and value of the underlying shares, in common shares of Addax Petroleum.

At any time after June 20, 2010, Addax Petroleum can redeem the Bonds if the common share price exceeds the conversion price by 30% for at least 20 consecutive days.

The Bonds have been classified as a liability, net of the fair value of the conversion feature which has been classified in shareholders' equity. The proceeds received from the issuance of the bonds have been allocated as follows:

| | |
|--|------------|
| Allocation to equity element | 56 |
| Allocation to liability element, net of transaction costs | 239 |
| Transaction costs charged to earnings | (1) |
| Proceeds received on issuance, net of transaction costs | 294 |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

6. PROPERTY, PLANT AND EQUIPMENT

| | 2008 | 2007 |
|--------------------------------|--------------|--------------|
| Oil and natural gas properties | 5,698 | 4,119 |
| Accumulated depletion | (2,068) | (1,484) |
| | 3,630 | 2,635 |
| Corporate assets | 30 | 27 |
| Accumulated depreciation | (14) | (9) |
| | 16 | 18 |
| Balance, end of year | 3,646 | 2,653 |

Included in PP&E are net unamortized capitalized interest costs of \$11 million (2007: \$17 million). No interest costs have been capitalized during the year.

PP&E by cost centre is as follows:

| | 2008 | 2007 |
|-----------------------------|--------------|--------------|
| Cost Centre | | |
| Nigeria | 1,587 | 1,071 |
| Cameroon | 93 | 28 |
| Gabon | 1,412 | 1,109 |
| Iraq | 314 | 227 |
| Joint Development Zone | 224 | 200 |
| Corporate assets | 16 | 18 |
| Balance, end of year | 3,646 | 2,653 |

Included in PP&E is capital expenditure relating to unproved properties and major development projects that are not currently subject to depletion and depreciation as follows:

| | 2008 | 2007 |
|-----------------------------------|--------------|-------------|
| Unproved properties | | |
| Nigeria | 356 | 268 |
| Cameroon | 93 | 28 |
| Iraq ⁽¹⁾ | 314 | 227 |
| Joint Development Zone | 224 | 201 |
| Gabon | 98 | 21 |
| | 1,085 | 745 |
| Major development projects | | |
| Nigeria | 272 | 150 |
| Gabon | 189 | 21 |
| | 461 | 171 |
| Balance, end of year | 1,546 | 916 |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

(1) Iraq

Costs relating to operations in northern Iraq are capitalized. Exploration and development activities in Iraq may be subject to economic and political considerations such as the risks of war, actions by terrorist or insurgent groups, community disturbances, expropriation, nationalization, renegotiation, forced change or nullification of existing contracts or royalty rates, unenforceability of contractual rights, adverse changes to laws (whether of general application or otherwise) or the interpretation thereof, and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Impairment (ceiling test)

Addax Petroleum performed a ceiling test calculation at December 31, 2008 to assess the carrying amount of PP&E for each cost centre. Based on the calculation, the future net revenues from Addax Petroleum's reserves exceeded the carrying value of PP&E at December 31, 2008. The following estimated benchmark prices were used in the calculation:

| Year | ICE Brent Crude | |
|-------------------------|-----------------|--------|
| | Nigeria | Gabon |
| 2009 | 58.67 | 56.29 |
| 2010 | 71.57 | 69.19 |
| 2011 | 80.02 | 77.68 |
| 2012 | 89.54 | 87.27 |
| 2013 | 97.44 | 95.19 |
| 2014 | 98.84 | 96.62 |
| 2015 | 99.40 | 98.06 |
| 2016 | 100.85 | 99.53 |
| 2017 | 102.31 | 100.91 |
| 2018 | 106.62 | 102.34 |
| Thereafter escalated at | 2% | 2% |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are recorded when Addax Petroleum will be required to retire tangible long-lived assets such as well sites and offshore production platforms.

The asset retirement obligation movements are as follows:

| | 2008 | 2007 |
|---------------------------------------|-------------|-------------|
| Balance, beginning of year | 130 | 47 |
| Asset retirement obligations incurred | 23 | 14 |
| Revisions of previous estimates | 10 | 60 |
| Accretion expense | 12 | 9 |
| Balance, end of year | 175 | 130 |

In determining the fair value of the asset retirement obligations, the estimated cash flow of new obligations incurred during the year have been discounted at 6% (2007: 8%). The total undiscounted amount of the estimated cash flow required to settle the obligations is \$328 million (2007: \$195 million). The obligation will be settled at the end of the useful lives of the operating assets, estimated to extend up to 15 years in the future.

8. SHARE CAPITAL

Addax Petroleum is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. There are no preferred shares outstanding.

| Issued and Outstanding | 2008 | | 2007 | |
|-------------------------------|--------------------|---------------|--------------------|---------------|
| | Number | Amount | Number | Amount |
| Common Shares | | | | |
| Balance, beginning of year | 155,641,575 | 758 | 155,065,556 | 739 |
| Issued during the year | 910,426 | 33 | 576,019 | 19 |
| Balance, end of year | 156,552,001 | 791 | 155,641,575 | 758 |

Addax Petroleum paid a quarterly dividend of CDN \$0.10 per common share in March, June, September and December of 2008.

Share-Based Compensation

| | Grant date | Total Shares granted | Vested shares | Forfeited shares | Non-vested shares at year end | Fair value on grant date |
|-----------|-------------------|-----------------------------|----------------------|-------------------------|--------------------------------------|---------------------------------|
| LTIP 2006 | Aug-06 | 608,897 | 599,227 | 9,670 | - | \$24/share |
| LTIP 2007 | Aug-07 | 1,056,678 | 697,288 | 26,098 | 333,292 | \$41/share |
| LTIP 2008 | Aug-08 | 1,057,419 | 352,473 | 8,970 | 695,976 | \$40/share |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

9. EARNINGS PER SHARE

| | 2008 | | 2007 | |
|--|-------------|------------|-------------|------------|
| | Shares | Net Income | Shares | Net Income |
| Basic weighted average number of common shares outstanding | 156,022,704 | 784 | 155,322,124 | 482 |
| Effect of share-based compensation | 939,014 | - | 602,350 | - |
| Effect of convertible bonds | 5,929,234 | 22 | - | - |
| Diluted weighted average number of common shares outstanding | 162,890,952 | 806 | 155,924,474 | 482 |

The effect of the convertible bonds was anti-dilutive in 2007 and has been excluded from the calculation of diluted weighted average number of common shares outstanding as at December 31, 2007. No dilutive instruments have been excluded from the calculation in 2008.

10. CAPITAL MANAGEMENT

Addax Petroleum's objectives when managing capital are:

- To safeguard Addax Petroleum's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;
- To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and
- To enable Addax Petroleum to maximize growth by meeting its capital expenditure budget and to expend its budget to accelerate projects, and take advantage of acquisition opportunities.

Addax Petroleum's capital structure includes shareholders' equity, long-term debt, convertible bonds and cash and cash equivalents.

| | 2008 | 2007 |
|---------------------------|--------------|--------------|
| Shareholders' equity | 2,452 | 1,714 |
| Long-term debt | 1,200 | 950 |
| Convertible bonds | 255 | 245 |
| Cash and cash equivalents | (76) | (32) |
| Capital | 3,831 | 2,877 |

Addax Petroleum regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. Addax Petroleum manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Addax Petroleum may issue new debt or equity or similar instruments, reduce debt

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

levels, adjust the amount of dividends paid to shareholders, or make adjustments to its capital expenditure program.

Addax Petroleum's objectives with regard to capital management remain unchanged from 2007.

11. INCOME TAXES

The majority of Addax Petroleum's taxable operations are located in Nigeria under PSCs with the Nigerian government. The income tax rate in the Nigerian PSCs is 60%. There are no material income taxes payable by Addax Petroleum in Canada. Addax Petroleum's tax for its operations in Gabon is based on the corporate tax rate of 35%. The provision for income taxes varies from the amounts that would be computed by applying the combined income tax rates set out in the PSCs to Addax Petroleum's consolidated net income before provision for income taxes for the following reasons:

| | 2008 | 2007 |
|--|--------------|--------------|
| Income before provision for income taxes | 2,583 | 1,733 |
| Tax at 60% | 1,550 | 1,040 |
| Adjustments to income taxes: | | |
| Non deductible amounts | 315 | 230 |
| Taxable revenues | 60 | 47 |
| Foreign income tax rates | (126) | (66) |
| Provision for income taxes | 1,799 | 1,251 |

Components of future income taxes

| | 2008 | 2007 |
|---|-------------|-------------|
| The net future tax liability is as follows: | | |
| Differences between tax base and reported amounts | 353 | 160 |
| of depreciable and depletable assets | | |
| Tax effect of inventory | 2 | (6) |
| Tax deductible provisions | (34) | (19) |
| Tax deferred income | (2) | (6) |
| Other | (3) | (4) |
| Future income tax liabilities | 316 | 125 |

| | 2008 | 2007 |
|--|-------------|-------------|
| Future income tax assets are as follows: | | |
| Differences between tax base and reported amounts of depreciable and depletable assets | - | (1) |
| Tax effect of stock on hand | - | 4 |
| Tax deductible provision | - | 4 |
| Future income tax assets | - | 7 |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

ITCs of \$227 million have been recognized in future income taxes from property, plant and equipment during the year (2007: \$117 million).

12. INVENTORIES

| | 2008 | 2007 |
|-----------------------------|-------------|-------------|
| Crude oil and fuel oil | 78 | 38 |
| Material and supplies | 170 | 91 |
| Balance, end of year | 248 | 129 |

During the year, \$53 million of inventory has been recognized in operating expenses.

13. OTHER ASSETS

| | 2008 | 2007 |
|-----------------------------|-------------|-------------|
| Partner loan | 21 | 21 |
| Long-term capital inventory | 110 | 53 |
| Other | 31 | 20 |
| Balance, end of year | 162 | 94 |

Pursuant to the Taq Taq joint venture agreement, Addax Petroleum has advanced \$21 million (2007: \$21 million) to a joint venture partner. The advance is repayable to Addax Petroleum on demand. It is not expected that the repayment will be requested in the next twelve months.

14. FINANCIAL INSTRUMENTS

Addax Petroleum manages its exposure to financial risks arising from its operations and its use of financial instruments, including market risks (commodity prices, foreign currency exchange rates, and interest rates), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of Addax Petroleum's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. Addax Petroleum does not use derivative financial instruments for purposes other than risk management. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

Addax Petroleum's risk management policies and procedures have not changed from 2007.

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. Addax Petroleum may use derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain exposures. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

a) Foreign exchange risk

Addax Petroleum is exposed to foreign exchange risk because subsidiary companies undertake transactions in foreign currencies, primarily with respect to the Swiss franc ("CHF"), the Nigerian naira ("NGN"), Central African franc ("CFA"), which is pegged to the euro, and the euro ("EUR"). Exchange rate exposures are managed within approved policy parameters which may utilize both local currency borrowing facilities and forward contracts to hedge its exposure to foreign currency risk. The forward currency contract must be in the same currency as the hedged item or be directly correlated to that currency.

In December 2008, Addax Petroleum entered into foreign exchange forward contracts to purchase CHF 74 million for \$62 million which expire in December 2009. These forward contracts fix the exchange rate used to convert a portion of Addax Petroleum's Swiss franc denominated expenses to US dollars. These contracts have not been designated as hedges for accounting purposes.

Included in the statement of operations as at December 31, 2008 are unrealized gains of \$8 million related to these contracts.

A 10% change in the USD/CHF rate would affect net income for the year ended December 31, 2008 by \$7 million.

This sensitivity analysis was prepared by using the foreign exchange rates as per the currency contract adjusted for the variation.

b) Interest rate risk

Addax Petroleum is exposed to interest rate cash flow risk on its outstanding borrowings, specifically, on the floating rate element of its long-term debt. 82% of loans have floating interest rates. Addax Petroleum manages this risk through regular review of market conditions and interest rates, for which, if considered necessary, recommendations for changes to existing financing or new arrangements are presented to the board of directors for approval.

A 1% change in the interest rate would affect net income for the year ended December 31, 2008 by \$10 million. This was calculated by applying the percentage change to the average monthly balance of the long-term debt facilities over the period.

In order to manage cash flow from market fluctuations in the interest rate on the floating rate element of long-term debt, Addax Petroleum entered into the following interest rate swap agreements:

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

| Agreement date | Fixed Swap rate | Expiry | Coverage | Settlement |
|-----------------------|------------------------|---------------|-----------------|-------------------|
| September 2008 | 2.95% | 2010 | \$250 million | Monthly |
| December 2008 | 1.89% | 2010 | \$250 million | Quarterly |

These contracts have not been designated as hedges for accounting purposes. Included in pre-acquisition and other costs in the statement of operations for the year ended December 31, 2008 are unrealized losses of \$8 million related to these contracts.

c) Commodity price risk

Addax Petroleum is exposed to movements in the prices of oil commodities sold during its normal course of operations. Management does not currently use derivative instruments to hedge commodity prices.

Credit risk

Credit risk is the risk of economic loss arising when a counterparty fails to meet its obligations as they come due. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness and the respective concentration risk.

Credit risk resulting from joint venture operations is managed through the use of cash calls to partners prior to incurring expenditures. Therefore, management believes that there is no significant credit risk inherent in Addax Petroleum's accounts receivable from joint venture partners.

Of Addax Petroleum's accounts receivable at December 31, 2008, approximately 27% was due from one related party customer (2007 – 48%). Amounts due from this related party have historically been collected when due. Credit risk on trade receivables from non-related parties is managed through dealing with creditworthy counterparties, typically international banks and publicly traded international oil and gas companies for which financial information is readily available for review and is monitored on an ongoing basis. There were no overdue accounts receivables as at December 31, 2008.

The partner loan receivable will be settled after the commencement of production from the Taq Taq field, in accordance with the farm-in agreement.

The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables and cash and cash equivalents.

Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. Addax Petroleum's main sources of liquidity is its cash generated from operations, long-term debt facilities and convertible bonds. These funds are primarily used to finance working capital, operating expenses, capital expenditures, dividends and potential acquisitions.

Addax Petroleum manages its liquidity risk by regularly monitoring its cash flows from operating activities, holding adequate amounts of cash and cash equivalents and utilization of its long-term debt facilities (refer to note 4). The current year's budget is planned to be funded from cash flow from operations. The long-term debt facilities provide additional

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

flexibility for short-term timing fluctuations. Addax Petroleum transacts with major international banks and does not anticipate any difficulty in accessing cash and cash equivalents or drawing against committed facilities as and when required.

Fair value

The estimated fair values of purchased derivative financial instruments are recognized in the consolidated balance sheet in accounts receivable and accounts payable with resulting gains and losses being recognized in pre-acquisition and other expenses. These contracts have not been designated as hedges for accounting purposes.

The carrying value and fair value of these financial instruments at December 31, 2008 are as follows:

| Financial Instrument | 2008 | | 2007 | |
|--|-----------------------|-------------------|-----------------------|-------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets | | | | |
| <i>Held-for-trading</i> | | | | |
| Cash and cash equivalents | 76 | 76 | 32 | 32 |
| <i>Available-for-sale</i> | | | | |
| Other assets | 10 | 10 | - | - |
| <i>Loans and receivables</i> | | | | |
| Accounts receivable | 365 | 365 | 321 | 321 |
| Other assets | 21 | 21 | 21 | 21 |
| Financial Liabilities | | | | |
| <i>Other liabilities</i> | | | | |
| Accounts payable and accrued liabilities | 756 | 756 | 554 | 554 |
| Long-term debt | 1,200 | 1,200 | 950 | 950 |
| Convertible bonds | 255 | 185 | 245 | 340 |

There has been no change to the classification of financial instruments since December 31, 2007.

Included in other assets is an available-for-sale investment for which the fair value has been determined based on the market quotation on the balance sheet date and a non-interest bearing partner loan with no fixed terms of repayment (except with reference to an undetermined date of commencement of production). The fair value of these assets is not expected to be materially different from the carrying value.

Borrowings under long-term debt are subject to a floating interest rate; thus, carrying value approximates fair value. The fair value of the convertible bond liability has been determined using the closing trading price of the convertible bonds on the balance sheet date.

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

The fair values of other financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values.

15. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Changes in non-cash working capital

| | 2008 | 2007 |
|--|--------------|--------------|
| Accounts receivable | (44) | (133) |
| Income taxes and royalties receivable | (212) | (79) |
| Prepaid expenses | 3 | (13) |
| Inventories | (104) | (8) |
| Accounts payable and accrued liabilities | 202 | 181 |
| Income taxes and royalties payable | 41 | (398) |
| Deferred revenue | (6) | 6 |
| Changes in non-cash working capital | (120) | (444) |

| | 2008 | 2007 |
|----------------------|--------------|--------------|
| Operating activities | (329) | (571) |
| Investing activities | 209 | 127 |
| | (120) | (444) |

(b) Other cash flow information

| | 2008 | 2007 |
|-------------------|-------------|-------------|
| Interest paid | 54 | 72 |
| Income taxes paid | 269 | 121 |
| Total | 323 | 193 |

Addax Petroleum pays taxes and royalties in Nigeria through government liftings taken-in-kind. For the year ended December 31, 2008, such government liftings totalled \$1,953 million (2007: \$1,883 million).

(c) Cash and cash equivalents

| | 2008 | 2007 |
|--|-------------|-------------|
| Cash and cash equivalents consists of: | | |
| Cash | 75 | 31 |
| Short term deposits | 1 | 1 |
| Balance, end of year | 76 | 32 |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

16. INVESTMENT IN JOINT VENTURES

Included in the consolidated financial statements is Addax Petroleum's proportionate share of the result of operations of the following joint ventures:

| Company | Property | Participating Interest | |
|--------------------------------------|-----------------|-------------------------------|-------------|
| | | 2008 | 2007 |
| <u>Operated Assets</u> | | | |
| Addax Petroleum Cameron Ltd | Ngosso | 60.00% | 60.00% |
| Addax Petroleum JDZ Block 4 Ltd | JDZ Block 4 | 45.50% | 38.30% |
| Addax Oil and Gas Nigeria Ltd | Block 291 | 72.50% | 72.50% |
| Addax Petroleum Remboué Inc | Remboué | 92.00% | 92.00% |
| Addax Petroleum NZE Inc | NZE | 92.50% | 92.50% |
| Addax Petroleum Maghéna Inc | Maghéna | 92.50% | 92.50% |
| Addax Epaemeno Ltd | Epaemeno | 50.00% | 50.00% |
| Addax Petroleum Iris Inc (BVI) | Iris Marin | 33.33% | 23.78% |
| Addax Petroleum Gryphon Marin Ltd | Gryphon Marin | 68.75% | - |
| <u>Non Operated Assets</u> | | | |
| Addax Petroleum Gabon Ltd | Kiarsseny | 42.50% | 42.50% |
| Addax Petroleum JDZ Block 1 Ltd | JDZ Block 1 | 40.00% | 40.00% |
| Addax Petroleum JDZ Block 2 Ltd | JDZ Block 2 | 14.33% | 14.33% |
| Addax Petroleum JDZ Block 3 Ltd | JDZ Block 3 | 15.00% | 15.00% |
| Addax Petroleum Nigeria Offshore Ltd | Okwok | 40.00% | 40.00% |
| Addax Petroleum International Ltd | Taq Taq | 45.00% | 45.00% |
| Addax Petroleum Awoun Inc (BVI) | Awoun | 40.00% | 40.00% |
| Addax Petroleum Etame Inc (BVI) | Etame | 31.36% | 31.36% |
| Addax Petroleum Themis Inc (BVI) | Themis Marin | - | 23.78% |
| Addax Petroleum Sangaw Ltd (BVI) | Sangaw North | 26.67% | - |
| Addax Petroleum Iris Marin Ltd | Iris Marin | 18.00% | - |
| Addax Petroleum OPL 227 Ltd | OPL 227 | 40.00% | - |

The assets, liabilities, revenues and expenses representing Addax Petroleum's interests in these joint ventures are:

| | 2008 | 2007 |
|-------------------------|-------------|-------------|
| Current assets | 306 | 83 |
| Non-current assets | 1,090 | 797 |
| Current liabilities | (1,188) | (795) |
| Non-current liabilities | (4) | (13) |
| Net assets | 204 | 72 |
| Income | 129 | 165 |
| Expenses | 59 | 122 |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

17. COMMITMENTS

The following is a summary of Addax Petroleum's contractual obligations and commitments as at December 31, 2008:

| | Within one year | From 1 to 5 years | More than 5 years | Total |
|--|--------------------|----------------------|----------------------|------------|
| Operating leases ⁽¹⁾ | 48 | 140 | 35 | 223 |
| Purchase obligations | 112 | - | - | 112 |
| Exploration obligations | 15 | 79 | - | 94 |
| Other long-term obligations ⁽²⁾ | 458 | 75 | - | 533 |
| | 633 | 294 | 35 | 962 |

(1) Commitments on operating leases are as follows: 2009: \$48; 2010: \$35; 2011: \$35; 2012: \$35; thereafter: \$70.

(2) Includes commitments for drilling rigs for up to two years

Included in the above are the following exploration commitments as defined in the related PSC:

| | Outstanding minimum | | Period |
|--------------|-------------------------|--------------------|-----------|
| | Financial commitment | Work commitment | |
| Cameroon | - | 1 well | 2011 |
| JDZ | 24 | 5 wells | 2010 |
| Nigeria | 47 | 1 well | 2011 |
| Gabon | 15 | 5 wells | 2009-2011 |
| Iraq | 8 | 1 wells | 2009 |
| Total | 94 | | |

18. CONTINGENCIES

Addax Petroleum has a number of lawsuits and claims pending against it, for which it currently cannot determine the ultimate result. Costs are recorded as they are incurred or become determinable. Management believes the resolution of these matters will not have a material effect on our liquidity, consolidated financial position or results of operations.

Addax Petroleum is liable to pay early termination penalties on its Floating Production, Storage and Offloading vessel ("FPSO") lease contracts. As at December 31, 2008 if the contracts were terminated, the maximum liability arising from early termination would total \$100 million.

Addax Petroleum's income tax filings are subject to audits by taxation authorities. There are audits in progress and items under review, some which may increase the tax and royalty

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

liability. In addition, notices have been filed objecting to certain issues. While the results of these items cannot be ascertained at this time, it is believed that there is an adequate accrual for income taxes based on available information.

19. RELATED PARTY TRANSACTIONS

The following transactions took place between Addax Petroleum and the following related parties:

| | 2008 | 2007 |
|---|-------------|-------------|
| Sales to Addax B.V. and Addax Energy S.A. | 1,726 | 1,181 |
| Charges: | | |
| Addax Bunkering Services | (63) | (33) |
| AOG Advisory Services Ltd, London | (4) | (3) |
| Addax B.V. | (6) | (13) |

Addax B.V. and Addax Energy S.A. market Addax Petroleum's crude oil for a fee. The charges for AOG Advisory Services Ltd. include management services, trademark licence and information technology support. Charges from Addax Bunkering Services are for the purchase of fuel for Addax Petroleum's FPSO's and other marine support vessels. All transactions with these related parties are recorded at amounts agreed to by the parties and are made on the same terms and conditions as with non-related customers.

Amounts due from (to) related parties are included in accounts receivable and accounts payable in the consolidated balance sheet are as follows:

| | 2008 | 2007 |
|---|-------------|-------------|
| Sales to Addax B.V. and Addax Energy S.A. | 101 | 150 |
| AOG Advisory Services Ltd, London | - | (1) |
| Addax Bunkering Services | (10) | (8) |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

20. GEOGRAPHICAL INFORMATION

Addax Petroleum generates revenue in Nigeria and in Gabon.

| | 2008 | | | |
|---|----------------|--------------|------------------|--------------|
| | Nigeria | Gabon | Corporate | Total |
| REVENUE | | | | |
| Petroleum sales | 3,663 | 944 | - | 4,607 |
| Royalties | (685) | (165) | - | (850) |
| Net sales | 2,978 | 779 | - | 3,757 |
| Other income | 1 | - | 4 | 5 |
| Total net revenue | 2,979 | 779 | 4 | 3,762 |
| EXPENSES | | | | |
| Operating | 295 | 121 | - | 416 |
| General and administrative | - | - | 39 | 39 |
| Depletion, depreciation and accretion | 396 | 179 | 16 | 591 |
| Pre-acquisition and other expenses | - | - | 25 | 25 |
| Share-based compensation | - | - | 40 | 40 |
| Interest on long-term debt | - | - | 64 | 64 |
| Interest on convertible bonds | - | - | 22 | 22 |
| Foreign exchange (gain) loss | (10) | (5) | (3) | (18) |
| Total expenses | 681 | 295 | 203 | 1,179 |
| Income before provision for income taxes | 2,298 | 484 | (199) | 2,583 |
| Provision for income taxes | | | | |
| Current | 1,152 | 219 | 2 | 1,373 |
| Future | 426 | - | - | 426 |
| | 1,578 | 219 | 2 | 1,799 |
| Net income | 720 | 265 | (201) | 784 |

ADDAX PETROLEUM CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007
(Tabular amounts in US\$ millions)

| | 2007 | | | |
|---|----------------|--------------|------------------|--------------|
| | Nigeria | Gabon | Corporate | Total |
| REVENUE | | | | |
| Petroleum sales | 2,867 | 545 | - | 3,412 |
| Royalties | (536) | (50) | - | (586) |
| Net sales | 2,331 | 495 | - | 2,826 |
| Other income | 1 | - | 3 | 4 |
| Total net revenue | 2,332 | 495 | 3 | 2,830 |
| EXPENSES | | | | |
| Operating | 234 | 80 | - | 314 |
| General and administrative | - | - | 31 | 31 |
| Depletion, depreciation and accretion | 425 | 143 | 13 | 581 |
| Pre-acquisition and other expenses | 13 | - | 18 | 31 |
| Share-based compensation | - | - | 36 | 36 |
| Interest on long-term debt | - | - | 85 | 85 |
| Interest on convertible bonds | - | - | 13 | 13 |
| Foreign exchange (gain) loss | (1) | 4 | 3 | 6 |
| Total expenses | 671 | 227 | 199 | 1,097 |
| Income before provision for income taxes | 1,661 | 268 | (196) | 1,733 |
| Provision for income taxes | | | | |
| Current | 925 | 118 | 2 | 1,045 |
| Future | 206 | - | - | 206 |
| | 1,131 | 118 | 2 | 1,251 |
| Net income | 530 | 150 | (198) | 482 |

21. PRE-ACQUISITION AND OTHER EXPENSES

Included in pre-acquisition expenses are all amounts related to new venture activity including seismic purchases, studies (in-house and external) and consulting. Such amounts are charged to the consolidated statement of operations pending finalization of Addax Petroleum's rights to a license.