

# **Addax Petroleum Corporation**

## Consolidated Financial Statements

As at June 30, 2006 and for the three and six month periods ended June 30, 2006 and 2005

**ADDAX PETROLEUM CORPORATION**  
**CONSOLIDATED BALANCE SHEETS (unaudited)**  
(US \$000's)

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	333,851	6,708
Accounts receivable (note 9)	213,152	134,033
Inventories (note 5)	95,562	62,753
Prepaid expenses	16,733	15,506
	<b>659,298</b>	<b>219,000</b>
Future income taxes	110,349	155,884
Deferred financing charges	3,946	4,763
Property, plant and equipment (note 3)	741,417	487,023
	<b>855,712</b>	<b>647,670</b>
	<b>1,515,010</b>	<b>866,670</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities (note 9)	283,963	160,113
Income taxes and royalties payable	424,131	203,626
Deferred revenue	-	1,280
	<b>708,094</b>	<b>365,019</b>
Asset retirement obligations	26,583	25,266
Future income taxes	73,643	93,093
Other long-term liabilities	8,423	4,909
Long-term debt	-	80,000
	<b>108,649</b>	<b>203,268</b>
<b>Shareholders' equity</b>		
Share capital (note 4)	391,060	20,010
Contributed surplus (note 4)	12,586	-
Retained earnings	294,621	278,373
	<b>698,267</b>	<b>298,383</b>
	<b>1,515,010</b>	<b>866,670</b>

*See accompanying notes to the consolidated financial statements*

**ADDAX PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**  
(US \$000's, except per share amounts)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
<b>REVENUE</b>				
Petroleum sales (note 9)	522,449	257,805	916,610	454,857
Royalties	(90,036)	(39,570)	(163,304)	(77,864)
Net sales	432,413	218,235	753,306	376,993
Other income	2,271	231	3,504	856
<b>Total net revenue</b>	<b>434,684</b>	<b>218,466</b>	<b>756,810</b>	<b>377,849</b>
<b>EXPENSES</b>				
Operating	53,848	39,672	101,117	64,733
General and administrative	5,523	2,498	8,803	4,030
Pre-acquisition (note 10)	4,431	1,253	16,343	2,460
Share-based compensation (note 4)	12,586	-	12,586	-
Interest on long-term debt	616	240	1,822	240
Other interest and finance income	684	68	322	120
Depletion, depreciation and accretion (note 3)	64,717	36,780	122,164	57,811
Foreign exchange (gain)/loss	(1,800)	1,401	(1,743)	1,469
<b>Total expenses</b>	<b>140,605</b>	<b>81,912</b>	<b>261,414</b>	<b>130,863</b>
<b>Income before provision for income taxes</b>	<b>294,079</b>	<b>136,554</b>	<b>495,396</b>	<b>246,986</b>
<b>Provision for income taxes</b>				
Current	(175,896)	(74,947)	(260,004)	(149,511)
Future	(60,246)	(8,136)	(120,956)	(15,095)
	<b>(236,142)</b>	<b>(83,083)</b>	<b>(380,960)</b>	<b>(164,606)</b>
<b>Net income</b>	<b>57,937</b>	<b>53,471</b>	<b>114,436</b>	<b>82,380</b>
Earnings per share, basic and diluted	\$0.41	\$0.46	\$0.85	\$0.70
Weighted average number of common shares outstanding, basic and diluted	140,100,100	117,000,000	134,008,940	117,000,000

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (unaudited)**  
(US \$000's)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
Retained earnings, beginning of period	236,684	186,212	278,373	157,303
Net income	57,937	53,471	114,436	82,380
Distribution of earnings (note 1)	-	-	(48,188)	-
Dividends	-	-	(50,000)	-
Retained earnings, end of period	<b>294,621</b>	<b>239,683</b>	<b>294,621</b>	<b>239,683</b>

See accompanying notes to the consolidated financial statements

**ADDAX PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
(US \$000's)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	57,937	53,471	114,436	82,380
Items not affecting cash (note 7)	137,732	35,594	255,529	76,592
	<b>195,669</b>	<b>89,065</b>	<b>369,965</b>	<b>158,972</b>
Changes in non-cash working capital (note 7)	114,648	(82,643)	92,442	(83,153)
	<b>310,317</b>	<b>6,422</b>	<b>462,407</b>	<b>75,819</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Expenditures on property, plant and equipment	(225,689)	(69,343)	(328,126)	(159,120)
	<b>(225,689)</b>	<b>(69,343)</b>	<b>(328,126)</b>	<b>(159,120)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of long-term debt	-	75,000	-	125,000
Proceeds from (repayment of) long-term debt	-	15,000	(80,000)	-
Debt issues costs	-	(1,750)	-	(3,500)
Dividends paid	-	-	(50,000)	-
Proceeds from share issue (note 1)	-	-	371,050	-
Distribution of earnings (note 1)	-	-	(48,188)	-
	-	<b>88,250</b>	<b>192,862</b>	<b>121,500</b>
<b>Net increase in cash and cash equivalents</b>	<b>84,628</b>	<b>25,329</b>	<b>327,143</b>	<b>38,199</b>
Cash and cash equivalents, beginning of period	249,223	16,752	6,708	3,882
<b>Cash and cash equivalents, end of period</b>	<b>333,851</b>	<b>42,081</b>	<b>333,851</b>	<b>42,081</b>

*See accompanying notes to the consolidated financial statements*

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**June 30, 2006 and 2005**  
(US\$, except as noted. Tabular amounts in US\$ 000s, except as noted)

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**1. GENERAL**

Addax Petroleum Corporation (the "Corporation") was incorporated under the Canada Business Corporations Act on September 6, 2005 as a wholly owned subsidiary of The Addax and Oryx Group Ltd. ("AOG") for the purpose of acquiring all of the issued and outstanding common shares of Addax Petroleum N.V., another wholly owned subsidiary of AOG, in connection with the initial public offering of the common shares of the Corporation (the "IPO").

On February 16, 2006, the Corporation completed its IPO of 21.0 million common shares and on February 24, 2006 it completed the issuance of an additional 2.1 million common shares upon the exercise of an over-allotment option granted to the underwriters by Addax Petroleum Corporation in connection with the IPO. Total net proceeds from the issuances were approximately \$371,050,000.

In conjunction with the completion of the IPO, the Corporation acquired all of the issued and outstanding common shares of Addax Petroleum N.V. for cash consideration of \$48,188,360 and the issuance of 117,000,000 common shares. The cash consideration has been accounted for as a distribution of earnings. As AOG controls both the Corporation and Addax Petroleum N.V., the acquisition occurred between entities under common control and was accounted for in the books of the Corporation as a continuity of interests. Under this form of purchase accounting, Addax Petroleum Corporation is deemed to have acquired Addax Petroleum N.V. at book value. Subsequent to the acquisition, the Corporation's financial statements presented for comparative purposes reflect the financial position, results of operations and cash flows as if the Corporation and Addax Petroleum N.V. had been combined since the inception of Addax Petroleum N.V.

**2. ACCOUNTING POLICIES**

The interim consolidated financial statements of the Corporation include the Corporation, its wholly-owned subsidiaries and its interests in joint ventures, and have been prepared following the same accounting policies as the audited consolidated financial statements of Addax Petroleum N.V. as at December 31, 2005. The interim financial statements contain disclosures that are supplemental to the Corporation's annual audited consolidated financial statements. Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed. These financial statements should be read in conjunction with Addax Petroleum N.V.'s audited consolidated financial statements and notes thereto for the year ended December 31, 2005.

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Oil and natural gas properties	1,257,664	890,914
Accumulated depletion	(529,268)	(407,644)
	<b>728,396</b>	<b>483,270</b>
Corporate assets	17,097	7,289
Accumulated depreciation	(4,076)	(3,536)
	<b>13,021</b>	<b>3,753</b>
<b>Balance</b>	<b>741,417</b>	<b>487,023</b>

Property, plant and equipment by cost centre is as follows:

<b>Cost Centre</b>	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Nigeria	581,690	468,289
Cameroon	11,994	5,401
Gabon	10,354	9,580
Iraq	11,070	-
Joint Development Zone	113,288	-
Other corporate assets	13,021	3,753
<b>Balance, end of period</b>	<b>741,417</b>	<b>487,023</b>

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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Included in property, plant and equipment are certain costs not subject to depletion and depreciation as follows:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>Unproved properties</b>		
Cameroon	11,994	5,401
Gabon	10,354	9,580
Iraq	11,070	-
Joint Development Zone	113,288	-
	<b>146,706</b>	<b>14,981</b>

In March 2006, the Corporation entered into three production sharing contracts (“PSCs”) with the Joint Development Authority which administers the Joint Development Zone (JDZ) between Nigeria and São Tomé e Príncipe.

In June 2006, the Nigerian government approved the assignment of a 40% interest in the Okwok property to the Corporation.

During the second quarter of 2006, costs relating to the Taq Taq field in northern Iraq were capitalized as the risks and rewards of ownership had been confirmed. 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.

**ADDAX PETROLEUM CORPORATION**  
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**4. SHARE CAPITAL**

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

**Issued and Outstanding**

	<b>Six-month period ended June 30, 2006</b>	
	Common Shares	Amount
Balance, beginning of period	117,000,100	20,010
Issued pursuant to IPO	23,100,000	371,050
<b>Balance, end of period</b>	<b>140,100,100</b>	<b>391,060</b>

*Share-Based Compensation*

AOG has awarded 1,000,000 common shares of the Corporation to current employees and directors during the second quarter of the year. The grant date of the shares was June 30, 2006. The shares vest as follows: 468,700 shares immediately; 265,650 shares on January 31, 2007; and 265,650 shares on January 31, 2008. The fair value of the common shares granted of \$26,852,702 is expensed over the vesting period.

**5. INVENTORIES**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Oil products	39,416	19,269
Materials and supplies	56,146	43,484
<b>Balance</b>	<b>95,562</b>	<b>62,753</b>

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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**6. FINANCIAL INSTRUMENTS**

The Corporation uses certain derivative financial instruments to manage its commodity prices and foreign currency exposures. These financial instruments are not used for trading or speculative purposes. The Corporation had the following financial derivatives outstanding as at June 30, 2006:

**Foreign currency forward**

Remaining term	July 2006 - December 2006
Amount	\$1.5 million / month
Average exchange rate (United States dollar / Swiss Franc)	1.268
Contract value	\$ 175,296

**7. CASH FLOWS**

**(a) Items not affecting cash**

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
Future income taxes	60,246	8,136	120,956	15,095
Depletion, depreciation and accretion	64,717	36,780	122,164	57,811
Change in fair value of derivatives	137	34	230	333
Share-based compensation	12,586	-	12,586	-
Other items, including foreign exchange	46	(9,356)	(407)	3,353
<b>Total items not affecting cash</b>	<b>137,732</b>	<b>35,594</b>	<b>255,529</b>	<b>76,592</b>

**(b) Changes in non-cash working capital**

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
Accounts receivable	(90,044)	(67,193)	(79,119)	(42,828)
Prepaid expenses	18,612	936	(1,227)	860
Inventories	(9,819)	(12,054)	(23,823)	(18,453)
Accounts payable and accrued liabilities	(12,609)	6,338	(22,614)	50,569
Tax and royalties payable	208,508	(11,095)	220,505	(71,196)
Deferred revenue	-	425	(1,280)	(2,105)
<b>Changes in non-cash working capital</b>	<b>114,648</b>	<b>(82,643)</b>	<b>92,442</b>	<b>(83,153)</b>

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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**(c) Other cash flow information**

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
Interest paid	-	(1,391)	(1,183)	(4,676)
Income taxes paid	(196)	-	(196)	-
<b>Total items not affecting cash</b>	<b>(196)</b>	<b>(1,391)</b>	<b>(1,379)</b>	<b>(4,676)</b>

The Corporation pays taxes and royalties in Nigeria through government liftings taken-in-kind. For the six month period ended June 30, 2006, such government liftings totalled \$195,609,000 (\$56,043,000 for the quarter ended June 30, 2006).

**8. INVESTMENT IN JOINT VENTURES**

Included in the consolidated financial statements are the following items that represent the Corporation's interests in the jointly controlled assets, liabilities, revenues and expenses of the joint ventures in Cameroon, Gabon, Iraq, JDZ and the Okwok property in Nigeria.

	June 30, 2006	December 31, 2005
Non-current assets	118,456	14,982
Current assets	43,062	6,749
Non-current liabilities		-
Current liabilities	(210,703)	(40,683)
Net liabilities	(49,185)	18,952
Income	-	-
Expenses	24,677	10,915

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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**9. RELATED PARTY TRANSACTIONS**

The following transactions took place between the Corporation and AOG and its other subsidiary companies:

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2006	2005	2006	2005
Sales to Addax B.V.	356,289	136,032	529,650	236,223
<b>Charges:</b>				
Addax Bunkering Services	(8,786)	-	(9,919)	-
AOG Advisory Services Ltd	(625)	(497)	(1,250)	(1,122)
Addax BV	(3,265)	(2098)	(3,602)	(2,670)
Other entities	(13)	(379)	(27)	(627)

The sales to Addax B.V., the sole marketer of the Corporation's crude oil, were made on the same terms and conditions as with Addax B.V.'s non-related customers. The charges from 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 the Corporation's bunkering operations. Other items include charges from Addax Limited for the refund of services paid on behalf of the Corporation. Addax B.V. and Addax Limited are subsidiaries of AOG.

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

	June 30, 2006	December 31, 2005
Addax B.V.	73,425	109,694
AOG Advisory Services Ltd	3	281
Addax Limited	(33)	(2,943)

**10. PRE-ACQUISITION EXPENSES**

Included in pre-acquisition expenses are costs related to the Corporation's new venture activity. Related expenditures are charged to the income statement pending finalization of the Corporation's rights to a license. These costs can include seismic purchases, studies (in-house and external) and consulting. Beginning in the second quarter of 2006, capital costs related to the Corporation's interest in the Taq Taq field in northern Iraq have been capitalized.

**ADDAX PETROLEUM CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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**11. EVENTS SUBSEQUENT TO JUNE 30, 2006**

On July 20, 2006, the Corporation announced that it had agreed with the board of Directors of Pan-Ocean Energy Corporation Limited (“Pan-Ocean Energy”) to acquire two of its wholly-owned subsidiaries, PanAfrican Energy Corporation (Mauritius) Ltd. (“PanAfrican”) and Pan-Ocean Energy UK Ltd. (Pan –Ocean UK”), for CDN \$1.605 billion in cash. PanAfrican owns and operates an exploration, production and marketing business in Gabon, West Africa with management and operational services being provided by Pan-Ocean UK. Funding will be provided by a combination of internal cash resources and firm financing commitments from a syndicate of lenders.

The closing of the transaction, expected on or about September 7, 2006, is subject to three quarters majority vote of both the Class A and B shares of Pan-Ocean Energy to be held at the special meeting of shareholders of Pan-Ocean Energy on August 30, 2006 and approval of the Royal Court of Jersey.

On August 1, 2006, the Corporation filed a preliminary short form base PREP prospectus with the securities regulatory authorities in Canada relating to the distribution of up to 15,000,000 subscription receipts, each subscription receipt representing the right to receive one common share of the Corporation, without payment of additional consideration. The Corporation has also granted to the underwriters an over-allotment option in respect of up to 10% of the subscription receipts purchased exercisable at any time not later than 30 days after closing of the offering. The net proceeds of the offering will be used to fund a portion of the acquisition of PanAfrican and Pan-Ocean UK described above.

On August 1, 2006, the Board of Directors approved a dividend to shareholders of record on August 24, 2006 in the amount of CDN \$0.05 per common share to be paid on September 14, 2006. Holders of subscription receipts on the record date are entitled to receive the dividend for each subscription receipt held.