

# **Addax Petroleum Corporation**

Consolidated Interim Financial Statements

As at June 30, 2009 and for the three and six month periods ended June 30, 2009 and 2008

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

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current		
Cash and cash equivalents (note 11)	163	76
Accounts receivable (notes 10 and 13)	513	365
Income taxes and royalties receivable	157	291
Inventories (note 8)	211	248
Prepaid expenses	64	36
	<b>1,108</b>	<b>1,016</b>
Other assets (note 9)	184	162
Property, plant and equipment (note 4)	3,976	3,646
Goodwill	493	493
	<b>4,653</b>	<b>4,301</b>
	<b>5,761</b>	<b>5,317</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities (notes 10 and 13)	722	756
Income taxes and royalties payable	202	153
Deferred revenue	3	4
	<b>927</b>	<b>913</b>
Asset retirement obligations	181	175
Future income taxes	363	316
Other long-term liabilities	5	6
Long-term debt (notes 3 and 10)	1,525	1,200
Convertible bonds (note 10)	261	255
	<b>2,335</b>	<b>1,952</b>
<b>Shareholders' equity</b>		
Share capital (note 5)	792	791
Convertible bonds	56	56
Contributed surplus	59	45
Accumulated other comprehensive loss	(11)	(27)
Retained earnings	1,603	1,587
	<b>2,499</b>	<b>2,452</b>
	<b>5,761</b>	<b>5,317</b>

*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 (unaudited)**  
(US\$ millions, except per share amounts)

	Three month periods ended June 30,		Six month periods ended June 30,	
	2009	2008	2009	2008
<b>REVENUE</b>				
Petroleum sales (note 13)	735	1,493	1,311	2,647
Royalties	(155)	(273)	(235)	(459)
Net sales	580	1,220	1,076	2,188
Other income	1	1	1	2
<b>Total net revenue</b>	<b>581</b>	<b>1,221</b>	<b>1,077</b>	<b>2,190</b>
<b>EXPENSES</b>				
Operating	98	116	208	213
General and administrative	11	10	21	19
Depletion, depreciation and accretion (note 4)	179	144	354	280
Pre-acquisition and other	6	7	20	14
Share-based compensation	7	6	14	13
Interest on long-term debt	16	15	34	34
Interest on convertible bonds	5	6	11	11
Foreign exchange (gain) loss	2	2	(12)	(2)
<b>Total expenses</b>	<b>324</b>	<b>306</b>	<b>650</b>	<b>582</b>
<b>Income before provision for income taxes</b>	<b>257</b>	<b>915</b>	<b>427</b>	<b>1,608</b>
Provision for income taxes				
Current	138	551	227	920
Future	81	71	157	155
	219	622	384	1,075
<b>Net income</b>	<b>38</b>	<b>293</b>	<b>43</b>	<b>533</b>
Earnings per share (note 6)				
Basic	\$0.24	\$1.88	\$0.28	\$3.42
Diluted	\$0.24	\$1.83	\$0.27	\$3.35

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**  
(US\$ millions)

	Three month periods ended June 30,		Six month periods ended June 30,	
	2009	2008	2009	2008
<b>Net income</b>	38	293	43	533
Gain on available-for-sale financial assets, net of tax	13	-	16	-
<b>Comprehensive income</b>	<b>51</b>	<b>293</b>	<b>59</b>	<b>533</b>

See accompanying notes to the consolidated financial statements

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

	Three month periods ended June 30,		Six month periods ended June 30,	
	2009	2008	2009	2008
<b>Share capital</b>				
Balance, beginning of period	792	759	791	758
Issued during the period	-	-	1	1
<b>Balance, end of period</b>	<b>792</b>	<b>759</b>	<b>792</b>	<b>759</b>
<b>Convertible bonds</b>				
Balance, beginning of period	56	56	56	56
Issued during the period	-	-	-	-
<b>Balance, end of period</b>	<b>56</b>	<b>56</b>	<b>56</b>	<b>56</b>
<b>Contributed surplus</b>				
Balance, beginning of period	52	45	45	38
Share-based compensation	7	6	14	13
<b>Balance, end of period</b>	<b>59</b>	<b>51</b>	<b>59</b>	<b>51</b>
<b>Accumulated other comprehensive income</b>				
Balance, beginning of period	(24)	-	(27)	-
Other comprehensive income	13	-	16	-
<b>Balance, end of period</b>	<b>(11)</b>	<b>-</b>	<b>(11)</b>	<b>-</b>
<b>Retained earnings</b>				
Balance, beginning of period	1,580	1,086	1,587	862
Net income	38	293	43	533
Dividends	(15)	(16)	(27)	(32)
<b>Balance, end of period</b>	<b>1,603</b>	<b>1,363</b>	<b>1,603</b>	<b>1,363</b>

*See accompanying notes to the consolidated financial statements*

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

	Three month periods ended June 30,		Six month periods ended June 30,	
	2009	2008	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Net income</b>	<b>38</b>	<b>293</b>	<b>43</b>	<b>533</b>
<b>Items not requiring outlay of cash:</b>				
Future income taxes	81	71	157	155
Depletion, depreciation and accretion	179	144	354	280
Share-based compensation	7	6	14	13
Convertible bond interest accretion	3	3	6	5
Other items	(2)	4	8	1
	<b>306</b>	<b>521</b>	<b>582</b>	<b>987</b>
Changes in non-cash working capital (note 11)	(21)	206	(35)	(50)
	<b>285</b>	<b>727</b>	<b>547</b>	<b>937</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Expenditures on property, plant and equipment	(302)	(369)	(764)	(709)
Change in non-cash working capital (note 11)	(15)	(19)	17	18
Increase in other non-current assets	(4)	(8)	(11)	1
	<b>(321)</b>	<b>(396)</b>	<b>(758)</b>	<b>(690)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of long-term debt	125	-	325	200
Repayment of long-term debt	-	(215)	-	(240)
Issue costs on long-term debt	-	(6)	-	(6)
Dividends paid	(15)	(16)	(27)	(32)
	<b>110</b>	<b>(237)</b>	<b>298</b>	<b>(78)</b>
<b>Net increase in cash and cash equivalents</b>	<b>74</b>	<b>94</b>	<b>87</b>	<b>169</b>
Cash and cash equivalents, beginning of period	89	107	76	32
<b>Cash and cash equivalents, end of period</b>	<b>163</b>	<b>201</b>	<b>163</b>	<b>201</b>

*See accompanying notes to the consolidated financial statements*

**ADDAX PETROLEUM CORPORATION**  
**Notes to the Consolidated Financial Statements (unaudited)**  
**June 30, 2009 and 2008**  
(Tabular amounts in US\$ millions)

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**1. ACCOUNTING POLICIES**

The interim unaudited consolidated financial statements of Addax Petroleum Corporation ("Addax Petroleum") include the accounts of Addax Petroleum, its wholly-owned subsidiaries and its proportionate interests in joint ventures, and have been prepared following the same accounting policies and methods of their application as the audited consolidated financial statements of Addax Petroleum as at December 31, 2008, except as described below. Certain disclosures that are normally required to be included in the notes to the annual audited consolidated financial statements have been condensed or excluded. These financial statements should be read in conjunction with Addax Petroleum's audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

**2. CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2009, Addax Petroleum adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and intangible assets*, replacing Sections 3062, *Goodwill and other intangible assets* and 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with Section 3064. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. No changes were required to these financial statements as a result of the adoption of this new standard.

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**Future changes in accounting standards**

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

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. As such, Addax Petroleum will convert its consolidated financial statements to report under 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*.

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*.

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.

**ADDAX PETROLEUM CORPORATION**  
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**3. LONG-TERM DEBT**

Addax Petroleum has a five year, \$1.6 billion senior reducing revolving debt facility ("the Facility") and a two year, \$500 million unsecured loan facility (the "Unsecured Facility").

The Facility bears interest at the lenders' LIBOR plus an applicable margin between 1.75% and 2.65%. The Unsecured Facility bears interest at LIBOR plus a 2.90% margin. At June 30, 2009, \$1.05 billion was drawn down on the Facility and \$475 million on the Unsecured Facility. The effective interest rate on the facilities for the three and six month periods ended June 30, 2009 was 3.97% and 4.71% (2008: 5.87% and 6.21%).

In addition to the funds drawn on the facilities, letters of credit totaling \$219 million (2008: \$129 million) related to the Nigerian and Joint Development Zone ("JDZ") assets were outstanding at June 30, 2009.

Costs incurred to arrange both the Facility and the Unsecured Facility have been recorded as other assets and are amortized over the terms of the related debt agreements.

**4. PROPERTY, PLANT AND EQUIPMENT**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Oil and natural gas properties	6,352	5,698
Accumulated depletion	(2,390)	(2,068)
	<u>3,962</u>	<u>3,630</u>
Corporate assets	31	30
Accumulated depreciation	(17)	(14)
	<u>14</u>	<u>16</u>
<b>Balance, end of period</b>	<b><u>3,976</u></b>	<b><u>3,646</u></b>

Included in property, plant and equipment ("PP&E") are net unamortized capitalized interest costs of \$9 million (2008: \$11 million). No interest costs have been capitalized during the three and six month periods ended June 30, 2009 (2008: \$nil and \$nil).

Beginning on June 1, 2009, Taq Taq activities are no longer in the pre-production or development stage.

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PP&E by cost centre is as follows:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Cost Centre</b>		
Nigeria	1,741	1,599
Gabon	1,545	1,412
Iraq	339	314
Joint Development Zone	224	212
Cameroon	113	93
Corporate assets	14	16
<b>Balance, end of period</b>	<b>3,976</b>	<b>3,646</b>

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Unproved properties</b>		
Nigeria	374	368
Gabon	137	98
Iraq	339	314
Joint Development Zone	224	212
Cameroon	113	93
	<b>1,187</b>	<b>1,085</b>
<b>Major development projects</b>		
Nigeria	312	272
Gabon	173	189
	<b>485</b>	<b>461</b>
<b>Balance, end of period</b>	<b>1,672</b>	<b>1,546</b>

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**5. 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**

<b>Common Shares</b>	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Balance, beginning of period	156,552,001	791	155,641,575	758
Issued during the period	30,317	1	910,426	33
<b>Balance, end of period</b>	<b>156,582,318</b>	<b>792</b>	<b>156,552,001</b>	<b>791</b>

Addax Petroleum declared a dividend of CDN\$0.10 per share payable on August 27, 2009 to shareholders of record August 13, 2009.

**6. EARNINGS PER SHARE**

	<b>Three month period ended June 30, 2009</b>		<b>Six month period ended June 30, 2009</b>	
	<b>Shares</b>	<b>Net Income</b>	<b>Shares</b>	<b>Net Income</b>
Basic weighted average number of common shares outstanding	156,582,318	38	156,581,481	43
Effect of share-based compensation	1,011,398	-	1,011,398	-
Diluted weighted average number of common shares outstanding	157,593,716	38	157,592,879	43

The effect of the convertible bonds is anti-dilutive and has been excluded from the calculation of diluted weighted average number of common shares outstanding as at June 30, 2009.

	<b>Three month period ended June 30, 2008</b>		<b>Six month period ended June 30, 2008</b>	
	<b>Shares</b>	<b>Net Income</b>	<b>Shares</b>	<b>Net Income</b>
Basic weighted average number of common shares outstanding	155,651,087	293	155,650,617	533
Effect of share-based compensation	884,252	-	884,252	-
Effect of convertible bonds	5,929,234	6	5,929,234	11
Diluted weighted average number of common shares outstanding	162,464,573	299	162,464,103	544

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**7. CAPITAL MANAGEMENT**

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Shareholders' equity	2,499	2,452
Long-term debt	1,525	1,200
Convertible bonds	261	255
Cash and cash equivalents	163	76
<b>Capital</b>	<b>4,448</b>	<b>3,983</b>

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 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 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 2008.

**8. INVENTORIES**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Crude oil and fuel oil	28	78
Material and supplies	183	170
<b>Balance, end of period</b>	<b>211</b>	<b>248</b>

During the three and six month periods ended June 30, 2009, \$3 million and \$85 million (2008: \$nil and \$44 million) of inventory has been recognized in the consolidated statements of operations.

**ADDAX PETROLEUM CORPORATION**  
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(Tabular amounts in US\$ millions)

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**9. OTHER ASSETS**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Partner loan	21	21
Long-term capital inventory	120	110
Other	43	31
<b>Balance, end of period</b>	<b>184</b>	<b>162</b>

Pursuant to the Taq Taq joint venture agreement, Addax Petroleum has advanced \$21 million (2008: \$21 million) to a joint venture partner. The partner loan receivable will be repaid after the commencement of production from the Taq Taq field, in accordance with the farm-in agreement.

**10. 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 2008.

**Market risks**

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.

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"), the 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 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.

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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 pre-acquisition and other expenses in the statement of operations for the three and six month periods ended June 30, 2009 are unrealized losses of \$5 million and \$5 million related to these contracts.

A 10% change in the USD/CHF exchange rate would affect net income for the three and six month periods ended June 30, 2009 by \$7 million and \$7 million.

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. Approximately 85% 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 three and six month periods ended June 30, 2009 by \$3 million and \$7 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:

<b>Agreement date</b>	<b>Fixed Swap rate</b>	<b>Expiry</b>	<b>Notional Amount</b>	<b>Settlement</b>
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 expenses in the statement of operations for the three and six month periods ended June 30, 2009 are unrealized losses of \$2 million and \$1 million related to these contracts.

c) Commodity price risk

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

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**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.

Approximately 34% of Addax Petroleum's accounts receivable at June 30, 2009, was due from one related party customer (2008 – 27%). 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 receivable as at June 30, 2009.

The partner loan receivable will be repaid 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 are 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 3). The current year's budget is planned to be funded from cash flow from operations. The long-term debt facilities provide additional 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.

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The carrying value and fair value of these financial instruments are as follows:

<b>Financial Instrument</b>	<b>As at June 30, 2009</b>		<b>As at December 31, 2008</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Financial Assets</b>				
<i>Held-for-trading</i>				
Cash and cash equivalents	163	163	76	76
<i>Available-for-sale</i>				
Other assets	26	26	10	10
<i>Loans and receivables</i>				
Accounts receivable	513	513	365	365
Other assets	21	21	21	21
<b>Financial Liabilities</b>				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	722	722	756	756
Long-term debt	1,525	1,525	1,200	1,200
Convertible bonds	261	319	255	185

There has been no change to the classification of financial instruments since December 31, 2008.

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

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

	<b>Three month periods ended June 30,</b>		<b>Six month periods ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Accounts receivable	(87)	25	(152)	(123)
Income taxes and royalties receivable	94	(25)	134	37
Prepaid expenses	6	(16)	(28)	(16)
Inventories	(11)	(29)	16	(59)
Accounts payable and accrued liabilities	(96)	69	(36)	43
Income taxes and royalties payable	55	166	49	91
Deferred revenue	3	(3)	(1)	(5)
<b>Changes in non-cash working capital</b>	<b>(36)</b>	<b>187</b>	<b>(18)</b>	<b>(32)</b>

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(Tabular amounts in US\$ millions)

	Three month periods ended June 30,		Six month periods ended June 30,	
	2009	2008	2009	2008
Operating activities	(21)	206	(35)	(50)
Investing activities	(15)	(19)	17	18
	<b>(36)</b>	<b>187</b>	<b>(18)</b>	<b>(32)</b>

**(b) Other cash flow information**

	Three month periods ended June 30,		Six month periods ended June 30,	
	2009	2008	2009	2008
Interest paid	22	15	37	20
Income taxes paid	14	43	28	67
<b>Total</b>	<b>36</b>	<b>58</b>	<b>65</b>	<b>87</b>

Addax Petroleum pays taxes and royalties in Nigeria through government liftings taken-in-kind. During the six month period ended June 30, 2009, government liftings totalled \$195 million (2008: \$1,071 million) and \$114 million for the three months ended June 30, 2009 (2008: \$542 million).

**(c) Cash and cash equivalents**

	June 30, 2009	December 31, 2008
Cash and cash equivalents consists of:		
Cash	162	75
Short term deposits	1	1
<b>Balance, end of period</b>	<b>163</b>	<b>76</b>

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**12. INVESTMENT IN JOINT VENTURES**

Included in the consolidated financial statements are the following items that represent Addax Petroleum's interests in the jointly controlled assets, liabilities, revenues and expenses of the joint ventures:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Current assets	290	306
Non-current assets	1,258	1,090
Current liabilities	(1,305)	(1,188)
Non-current liabilities	(6)	(4)
<b>Net assets</b>	<b>237</b>	<b>204</b>

	<b>Three month periods ended June 30,</b>		<b>Six month periods ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenue	35	90	59	144
Expenses	17	62	26	103

**13. RELATED PARTY TRANSACTIONS**

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

	<b>Three month periods ended June 30,</b>		<b>Six month periods ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Sales to Addax Energy S.A.	474	628	845	1044
<b>Charges:</b>				
Addax Bunkering Services	(11)	(18)	(21)	(30)
AOG Advisory Services Ltd, London	(1)	(2)	(2)	(3)
Addax Energy S.A.	(3)	(1)	(6)	(2)

Addax Energy S.A. markets 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.

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Addax Energy S.A.	173	101
AOG Advisory Services Ltd, London	(1)	-
Addax Bunkering Services	(12)	(10)

#### **14. CONTINGENCIES**

As described in Note 18 to the audited consolidated financial statements as at and for the year ended December 31, 2008, there are a number of lawsuits and claims pending, the ultimate results of which cannot be ascertained at this time. Costs are recorded as they are incurred or become determinable. Management believes the resolution of these matters will not have a material adverse effect on Addax Petroleum's liquidity, consolidated financial position or results of operations. There have been no significant changes or new material claims since December 31, 2008.

#### **15. TAQ TAQ REVENUE RECOGNITION**

On June 1, 2009, international crude oil exports commenced from the Taq Taq licence area in Iraq. During June, Addax Petroleum delivered approximately 350,000 barrels of oil for international export. As an agreed upon pricing mechanism has not yet been established for these international sales, it is not possible to determine the ultimate selling price and the criteria necessary for revenue recognition have not been achieved. Revenue will be recognized in the period when sales prices can be determined with reasonable certainty.

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**16. GEOGRAPHICAL INFORMATION**

Addax Petroleum generates revenue in Nigeria and in Gabon.

	<b>Six month period ended June 30, 2009</b>			
	<b>Nigeria</b>	<b>Gabon</b>	<b>Corporate</b>	<b>Total</b>
<b>REVENUE</b>				
Petroleum sales	1,040	271	-	1,311
Royalties	(173)	(62)	-	(235)
Net sales	867	209	-	1,076
Other income	1	-	-	1
<b>Total net revenue</b>	<b>868</b>	<b>209</b>	<b>-</b>	<b>1,077</b>
<b>EXPENSES</b>				
Operating	136	72	-	208
General and administrative	-	-	21	21
Depletion, depreciation and accretion	223	123	8	354
Pre-acquisition and other	-	-	20	20
Share-based compensation	-	-	14	14
Interest on long-term debt	-	-	34	34
Interest on convertible bonds	-	-	11	11
Foreign exchange (gain)	(10)	(1)	(1)	(12)
<b>Total expenses</b>	<b>349</b>	<b>194</b>	<b>107</b>	<b>650</b>
<b>Income (loss) before provision for income taxes</b>	<b>519</b>	<b>15</b>	<b>(107)</b>	<b>427</b>
Provision for income taxes				
Current	192	34	1	227
Future	157	-	-	157
	349	34	1	384
<b>Net income (loss)</b>	<b>170</b>	<b>(19)</b>	<b>(108)</b>	<b>43</b>

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	<b>Three month period ended June 30, 2009</b>			
	<b>Nigeria</b>	<b>Gabon</b>	<b>Corporate</b>	<b>Total</b>
<b>REVENUE</b>				
Petroleum sales	586	149	-	735
Royalties	(113)	(42)	-	(155)
Net sales	473	107	-	580
Other income	1	-	-	1
<b>Total net revenue</b>	<b>474</b>	<b>107</b>	<b>-</b>	<b>581</b>
<b>EXPENSES</b>				
Operating	65	33	-	98
General and administrative	0	0	11	11
Depletion, depreciation and accretion	113	62	4	179
Pre-acquisition and other	-	-	6	6
Share-based compensation	-	-	7	7
Interest on long-term debt	-	-	16	16
Interest on convertible bonds	-	-	5	5
Foreign exchange (gain) loss	(1)	2	1	2
<b>Total expenses</b>	<b>177</b>	<b>97</b>	<b>50</b>	<b>324</b>
<b>Income (loss) before provision for income taxes</b>	<b>297</b>	<b>10</b>	<b>(50)</b>	<b>257</b>
Provision for income taxes				
Current	116	22	-	138
Future	81	-	-	81
	197	22	-	219
<b>Net income (loss)</b>	<b>100</b>	<b>(12)</b>	<b>(50)</b>	<b>38</b>

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	<b>Six month period ended June 30, 2008</b>			
	<b>Nigeria</b>	<b>Gabon</b>	<b>Corporate</b>	<b>Total</b>
<b>REVENUE</b>				
Petroleum sales	2,112	535	-	2,647
Royalties	(382)	(77)	-	(459)
Net sales	1,730	458	-	2,188
Other income	1	-	1	2
<b>Total net revenue</b>	<b>1,731</b>	<b>458</b>	<b>1</b>	<b>2,190</b>
<b>EXPENSES</b>				
Operating	156	57	-	213
General and administrative	-	-	19	19
Depletion, depreciation and accretion	192	81	7	280
Pre-acquisition and other	-	-	14	14
Share-based compensation	-	-	13	13
Interest on long-term debt	-	-	34	34
Interest on convertible bonds	-	-	11	11
Foreign exchange (gain) loss	(2)	5	(5)	(2)
<b>Total expenses</b>	<b>346</b>	<b>143</b>	<b>93</b>	<b>582</b>
<b>Income (loss) before provision for income taxes</b>	<b>1,385</b>	<b>315</b>	<b>(92)</b>	<b>1,608</b>
Provision for income taxes				
Current	788	131	1	920
Future	155	-	-	155
	943	131	1	1,075
<b>Net income (loss)</b>	<b>442</b>	<b>184</b>	<b>(93)</b>	<b>533</b>

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	<b>Three month period ended June 30, 2008</b>			
	<b>Nigeria</b>	<b>Gabon</b>	<b>Corporate</b>	<b>Total</b>
<b>REVENUE</b>				
Petroleum sales	1,171	322	-	1,493
Royalties	(211)	(62)	-	(273)
Net sales	960	260	-	1,220
Other income	-	-	1	1
<b>Total net revenue</b>	<b>960</b>	<b>260</b>	<b>1</b>	<b>1,221</b>
<b>EXPENSES</b>				
Operating	84	32	-	116
General and administrative	-	-	10	10
Depletion, depreciation and accretion	96	44	4	144
Pre-acquisition and other	-	-	7	7
Share-based compensation	-	-	6	6
Interest on long-term debt	-	-	15	15
Interest on convertible bonds	-	-	6	6
Foreign exchange (gain) loss	(1)	2	1	2
<b>Total expenses</b>	<b>179</b>	<b>78</b>	<b>49</b>	<b>306</b>
<b>Income (loss) before provision for income taxes</b>	<b>781</b>	<b>182</b>	<b>(48)</b>	<b>915</b>
Provision for income taxes				
Current	469	81	1	551
Future	71	-	-	71
	540	81	-	622
<b>Net income (loss)</b>	<b>241</b>	<b>101</b>	<b>(49)</b>	<b>293</b>