

# Addax Petroleum Corporation

Interim Management's Discussion & Analysis  
For the six months ended June 30, 2007

## Management's Discussion & Analysis

The following interim Management's Discussion and Analysis of Addax Petroleum Corporation ("Addax Petroleum") is dated August 7, 2007 and should be read in conjunction with Addax Petroleum's interim unaudited consolidated financial statements as at June 30, 2007 and for the three and six month periods ended June 30, 2007 and 2006 as well as the audited consolidated financial statements for the year ended December 31, 2006 together with the notes thereto and related Management's Discussion and Analysis. The consolidated financial statements presented herein are those of Addax Petroleum and its subsidiaries. Except as otherwise indicated, certain defined words, abbreviations and terms used herein have the meaning set forth in Addax Petroleum's Annual Information Form dated March 28, 2007 ("AIF"). Addax Petroleum's AIF and additional information regarding Addax Petroleum are available from SEDAR at [www.sedar.com](http://www.sedar.com). All amounts presented are in United States dollars unless otherwise indicated.

### LEGAL NOTICE – FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute forward-looking statements under applicable securities legislation. Such statements are generally identifiable by the terminology used, such as "may", "will", "should", "could", "anticipate", "believe", "intend", "expect", "plan", "estimate", "budget", "outlook" or other similar wording. Forward-looking information includes, but is not limited to, reference to business strategy and goals, future capital and other expenditures, reserves and resources estimates, drilling plans, construction and repair activities, the submission of development plans, seismic activity, production levels and the sources of growth thereof, project development schedules and results, results of exploration activities and dates by which certain areas may be developed or may come on-stream, royalties payable, financing and capital activities, contingent liabilities, and environmental matters. By its very nature, such forward-looking information requires Addax Petroleum to make assumptions that may not materialize or that may not be accurate. This forward-looking information is subject to known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such information. Such factors include, but are not limited to: imprecision of reserves and resources estimates, ultimate recovery of reserves, prices of oil and natural gas, general economic, market and business conditions; industry capacity; competitive action by other companies; fluctuations in oil prices; refining and marketing margins; the ability to produce and transport crude oil and natural gas to markets; the effects of weather and climate conditions; the results of exploration and development drilling and related activities; fluctuations in interest rates and foreign currency exchange rates; the ability of suppliers to meet commitments; actions by governmental authorities, including increases in taxes; decisions or approvals of administrative tribunals; changes in environmental and other regulations; risks attendant with oil and gas operations, both domestic and international; international political events; expected rates of return; and other factors, many of which are beyond the control of Addax Petroleum. More specifically, production may be affected by such factors as exploration success, production start-up timing and success, facility reliability, reservoir performance and natural decline rates, water handling, and drilling progress. Capital expenditures may be affected by cost pressures associated with new capital projects, including labour and material supply, project management, drilling rig rates and availability, and seismic costs. These factors are discussed in greater detail in filings made by Addax Petroleum with the Canadian provincial securities commissions.

Readers are cautioned that the foregoing list of important factors affecting forward-looking information is not exhaustive. Furthermore, the forward-looking information contained in this interim report is made as of the date of this report and, except as required by applicable law, Addax Petroleum does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise. The forward-looking information contained in this report is expressly qualified by this cautionary statement.

### NON-GAAP MEASURES

Addax Petroleum defines "Funds Flow From Operations" or "FFFO" as net cash from operating activities before changes in non-cash working capital. Management believes that in addition to net income, FFFO is a useful measure as it demonstrates Addax Petroleum's ability to generate the cash necessary to repay debt or fund future growth through capital investment. Addax Petroleum also assesses its performance utilizing Operating Netbacks which it defines as the per barrel profit margin associated with the production and sale of crude oil and is calculated as the funds flow from operations per barrel sold, prior to corporate charges. FFFO and Operating Netback are not recognized measures under Canadian Generally Accepted Accounting Principles ("GAAP"). Readers are cautioned that these measures should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with Canadian GAAP or as an indication of Addax Petroleum's performance. Addax Petroleum's method of calculating this measure may differ from other companies and accordingly, it may not be comparable to measures used by other companies.

## Second Quarter 2007 Highlights

Selected highlights <i>(US\$ million, unless otherwise stated)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>FINANCIAL:</b>				
Petroleum sales before royalties	753	523	1,380	917
Funds Flow From Operations ("FFFO")	287	196	550	370
FFFO per share (US\$/basic share)	1.85	1.40	3.55	2.76
Net income	101	58	180	114
Earnings per share (US\$/basic share)	0.65	0.41	1.16	0.85
Weighted average common shares outstanding (millions)	155	140	155	134
Cash dividend per share (US\$/basic share)	0.05	--	0.10	--
Total assets	3,282	1,515	3,282	1,515
Capital expenditures, net of dispositions	261	229	477	475
Total long-term liabilities	1,361	109	1,361	109
<b>OPERATIONAL:</b>				
Average net working interest oil production (Mbb/d):				
Nigeria	104.1	79.9	101.0	80.1
Gabon	18.9	--	18.6	--
Total	123.0	79.9	119.6	80.1
Prices, expenses and netbacks (US\$/bbl):				
Nigeria				
Average realized price	68.69	67.85	63.74	63.95
Operating expense	5.32	7.10	5.90	6.99
Operating netback	50.88	48.86	47.17	45.68
Gabon				
Average realized price	65.30	--	59.62	--
Operating expense	8.40	--	11.29	--
Operating netback	52.74	--	44.37	--

- ❖ During the second quarter ("Q2") 2007, petroleum sales increased 44% and 50% compared to Q2 2006 quarter and year-to-date, respectively. This increase is similar to the trend experienced in the first quarter ("Q1") 2007 given rising production levels in Nigeria and the third quarter ("Q3") 2006 acquisition of PanAfrican Energy Corporation (Mauritius) Ltd. and Pan-Ocean Energy UK Ltd. ("PanAfrican") in Gabon.
- ❖ Net income increased 74% and 58% compared to Q2 2006 quarterly and year-to-date, respectively, consistent with the rise in sales levels.
- ❖ Funds Flow From Operations amounted to \$287 million in Q2 2007, an increase of 46% from Q2 2006 as a result of the higher sales in 2007.
- ❖ Total Assets increased from Q2 2006 by 117% to \$3,282 million due to the PanAfrican acquisition, intensive capital investments in Taq Taq as well as continuing investment in Addax Petroleum's Nigerian and Gabonese assets.
- ❖ Average net working interest oil production of 123.0 Mbb/d in Q2 2007 represents an increase of 54% over Q2 2006. Gabon properties acquired in Q3 2006 contributed 18.9 Mbb/d for the current period and increases in the Nigerian OML126 block production volumes from Q2 2006 of 16.4 Mbb/d were the primary sources of growth.
- ❖ Average operating netback for Nigerian crude oil in Q2 2007 is \$50.88/bbl, an increase of 3% compared with Q2 2006 due to lower operating expense per barrel primarily in OML126 given lower maintenance required and lower FPSO costs.
- ❖ Gabon's operating netback has increased in Q2 2007 compared to Q1 2007 primarily due to the higher average realized sales price.

## Second Quarter 2007 Operational Update

### HIGHLIGHTS

Gross working interest oil production averaged 123.0 Mbb/d from Addax Petroleum's license areas in Nigeria and Gabon, an increase of approximately 6% over the prior quarter. Production performance is in line with the average production guidance for 2007 of between 127 and 133 Mbb/d. Operational highlights for Q2 2007 include:

- ❖ Average oil production of 123.0 Mbb/d;
- ❖ Six drilling rigs operated by Addax Petroleum;
- ❖ Drilled a total of six new development wells;
- ❖ Placed seven wells on production including six wells drilled in the quarter and one well drilled previously; and
- ❖ Drilled three exploration and appraisal wells resulting in the Ofrima North discovery in OML137 (formerly OPL225) and successful ongoing appraisal of the Taq Taq field.

### NEW BUSINESS

In April, 2007, Addax Petroleum entered into an agreement to acquire a 50% interest in the Epaemeno license area in Gabon from BowLeven plc who retains a 50% interest. Addax Petroleum will become the operator of the license area which is immediately north of the Maghena and Awoun license areas, onshore Gabon. The acquisition is subject to the consent of the Government of Gabon. Under the terms of the acquisition, Addax Petroleum is obligated to pay the first \$10 million of BowLeven plc's share of exploration costs and, in the event of a commercial development, the first \$8 million of BowLeven plc's share of development costs.



## PRODUCTION AND DEVELOPMENT OPERATIONS

Addax Petroleum's production and development operations take place in Nigeria and since Q3 2006, following the acquisition of PanAfrican, in Gabon.

During Q2 2007, the results of a prospective oil and contingent gas resources report were issued as at December 31, 2006. The report was prepared by the independent oil and natural gas reservoir engineer firm, Netherland, Sewell & Associates Inc., who estimated the working interest best estimate unrisks gross prospective oil resources for Addax Petroleum of 1,307 MMbbl and the corresponding risk estimate to be 670 MMbbl. In addition, the working interest best estimate gross contingent gas resources were 1,583 Bcf. The prospective oil resources and contingent gas resources are in addition to Addax Petroleum's proved, probable and possible reserves.

### Nigeria

Addax Petroleum's Nigeria license areas contribute to the majority of its production. Gross working interest production increased to an average of 104.1 Mbb/d Q2 2007 from 97.9 Mbb/d in Q1 2007.

Throughout Q2 2007, Addax Petroleum continued to operate four drilling rigs: two jack-up rigs on OML123, one semi-submersible on OML126 and one land rig on OML124. Development drilling activity comprised drilling four new development wells on OML123. All four new Q2 2007 development wells were placed on production in the quarter.

Addax Petroleum relinquished 50% of the OPL225 exploration license area pursuant to the terms and conditions of the relevant PSC during Q1 2007. OPL225 was subsequently converted to OML137.

### Gabon

Addax Petroleum's Gabon producing license areas were acquired in September, 2006. Gross working interest production increased to an average of 18.9 Mbb/d in Q2 2007 compared to 18.2 Mbb/d in Q1 2007.

Addax Petroleum operated two onshore drilling rigs during the second quarter and drilled three development wells, all of which were placed on production. One previously drilled well was also placed on production. There were various operational difficulties with the export pipeline and facilities at Coucal (operated by third parties) and shut-in wells resulting in lower production growth than targeted compared to Q1 2007. Addax Petroleum has taken remedial actions and expects to grow production in Q3 2007.

## EXPLORATION AND APPRAISAL OPERATIONS

In Q2 2007, Addax Petroleum expanded its exploration and appraisal investment activity as described below.

### Nigeria

A successful exploration well was drilled on the Ofrima North structure in OML137.

### Kurdistan Region of Iraq

During Q2 2007, the Taq Taq field was successfully appraised by TT-06 step-out well which was drilled 5.6km from the crestally located TT-05 well. This third Taq Taq field appraisal well was drilled and tested by Taq Taq Operating Company, the joint venture company formed by Genel Enerji A.S. and Addax Petroleum to carry out the petroleum operations in the Taq Taq license area. Three reservoir intervals were tested separately and flowed at an aggregate rate of 18,900 bbl/day of light oil, measured gravity of 48 degrees API with a low gas oil ratio. This appraisal well was spudded in January 2007 and completed drilling in April 2007 at a total depth of 2,085 metres and testing commenced in May 2007. These results provide additional information to better understand the field. Management is preparing a full development plan for the Taq Taq field. A fourth appraisal well is in progress.

### Gulf of Guinea Deep Water

During Q2 2007, Addax Petroleum continued to conduct technical studies evaluating the exploration prospect drilling locations of its deep water license areas in the JDZ between Sao Tome and Principe and Nigeria and in OPL291, offshore Nigeria. A deep water drillship has been contracted to be available at the earliest in the last quarter of 2008 for exploration drilling.

### Cameroon

In Cameroon, there was no drilling activity during Q2 2007. Addax Petroleum plans to drill two exploration wells on the Ngosso license area later in 2007 and long lead procurement and drilling rig selection was contracted in July 2007.

## 2007 Financial Update

Significant financial events since the December 31, 2006 year end audited consolidated financial statements and MD&A are provided below:

### **CONVERTIBLE DEBT**

On May 31, 2007, Addax Petroleum issued \$300 million principal amount of 3.75% unsecured convertible bonds for net proceeds of \$294 million. The convertible bonds have a coupon rate of 3.75% and a maturity date of May 31, 2012. The convertible bonds pay interest semi-annually and are convertible into Addax Petroleum common shares at the option of the bondholder at an initial conversion price of CDN\$56.06 (fixed US\$-CDN\$ rate of \$1.000 – CDN\$1.108) 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. In doing so, Addax Petroleum has the option to reduce the potential dilutive effect of the instrument.

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

The convertible bonds have been classified as a liability net of the fair value of the conversion feature which has been classified in shareholders' equity.

### **DEBT FINANCING**

Addax Petroleum entered into a five year, \$1,500 million senior secured reducing revolving debt facility consisting of a \$1,200 million loan tranche and a \$300 million letter of credit tranche. The loan has been used to re-finance the former bridge facility, fund budgeted capital expenditures and for general corporate purposes. The loan is in the form of a borrowing base loan secured against a portion of Addax Petroleum's business interests and is subject to potential reductions after three years.

In April 2007, the secured reducing revolving credit facility was increased from \$1,500 million to \$1,600 million with the long-term loan portion of the facility increasing from \$1,200 million to \$1,300 million. The \$300 million letter of credit facility remained unchanged.

### **DIVIDEND DECLARED**

Addax Petroleum declared a dividend of CDN\$0.05 per share for Q4 2006 which was payable March 15, 2007 to shareholders on record as of March 1, 2007.

The Board of Directors declared a dividend of CDN\$0.05 per share for Q1 2007. The dividend was payable on June 14, 2007 to shareholders of record on May 31, 2007. In accordance with Canada Revenue Agency Guidelines, dividends paid by the Corporation during the period are eligible dividends.

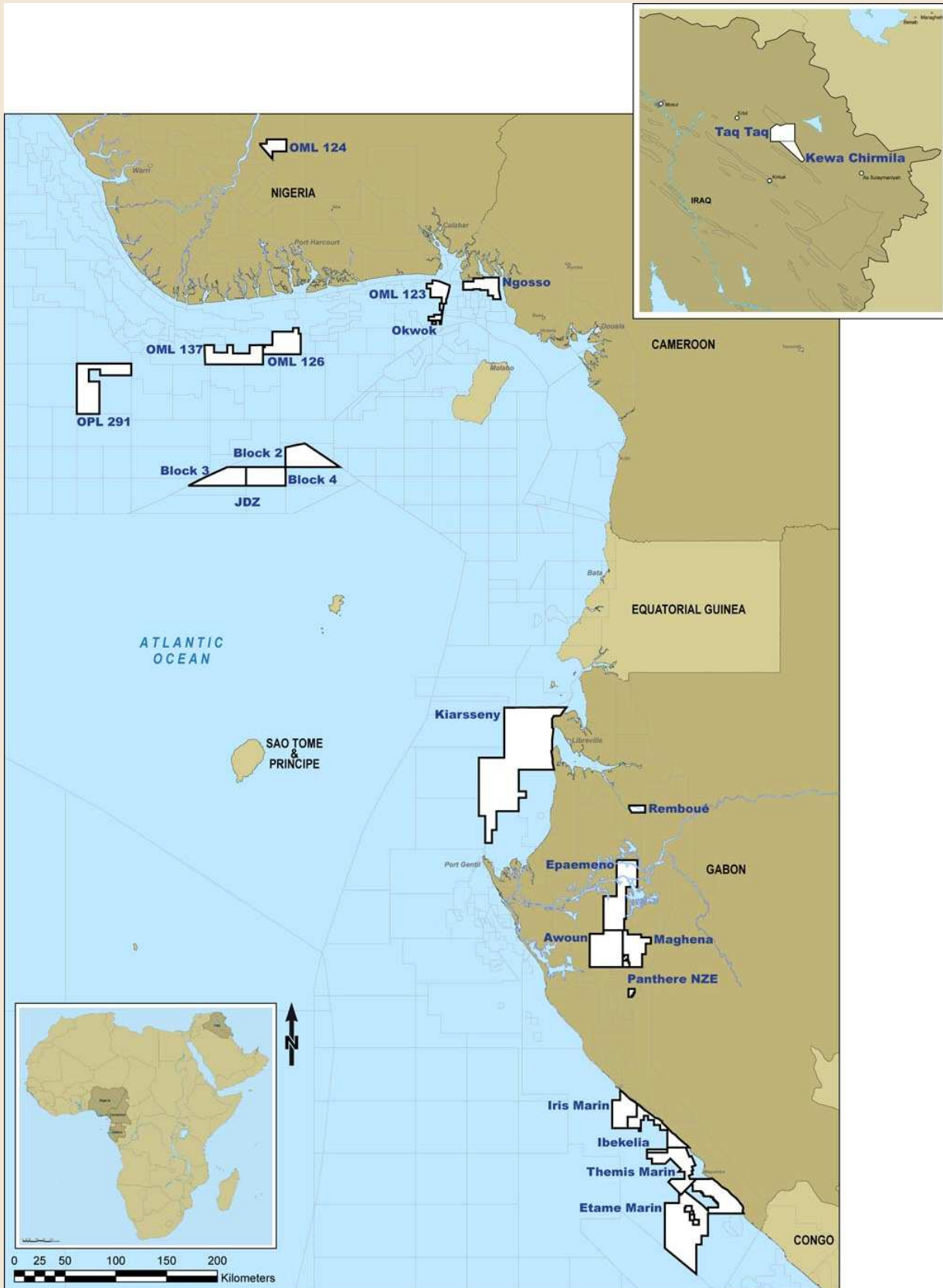
### **LONDON STOCK EXCHANGE LISTING**

Addax Petroleum commenced trading its shares on the Main Market of the London Stock Exchange ("LSE") on May 24, 2007 and is one of the largest independent oil and gas companies listed in London when measured by market capitalization, production and reserves. Management believes that the LSE listing will provide investors with additional liquidity, increase Addax Petroleum's visibility and expand its investor base.

### **STANDARD & POOR'S CANADIAN INDEX**

Effective March 19, 2007, Addax Petroleum was added to the Standard & Poor ("S&P") / TSX Composite Index and the S&P / TSX Capped Energy Index.

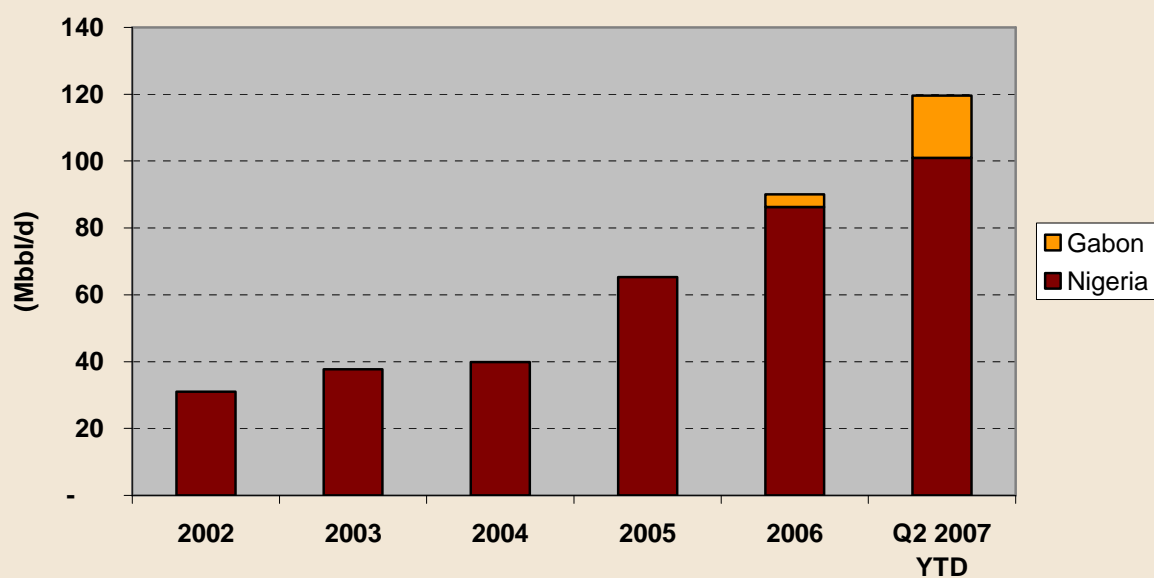
LICENSE AREAS



## PRODUCTION

Production continued to grow in Q2 2007, with the primary source being from increased production at OML126 and the properties in Gabon. Approximately 45% of Addax Petroleum's production in Q2 2007 is from offshore OML123 and 33% is from offshore OML126 blocks, both in Nigeria. Gabon contributed 15% to Q2 2007 production.

### Average Production



Annual 2002 - 2006, Year to date Q2 2007

Addax Petroleum's average working interest production for each license area was as follows:

Average net working interest oil production (Mbbbl/d)	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Nigeria</b>				
OML123	55.9	51.8	53.4	51.1
OML126	40.7	24.3	41.0	25.5
Subtotal – Offshore Nigeria	96.6	76.1	94.4	76.6
OML124	7.5	3.8	6.6	3.5
Subtotal – Offshore and Onshore Nigeria	104.1	79.9	101.0	80.1
<b>Gabon</b>				
Panthere NZE	2.9	--	2.9	--
Maghena	8.9	--	8.6	--
Remboué	0.7	--	0.7	--
Subtotal – Onshore Gabon	12.5	--	12.2	--
Etame	6.4	--	6.4	--
Subtotal – Offshore and Onshore Gabon	18.9	--	18.6	--
<b>Total</b>	<b>123.0</b>	<b>79.9</b>	<b>119.6</b>	<b>80.1</b>

(Note 1) Percentage change amounts are based on unrounded production volumes

## Nigeria Properties

### OML123

Production has increased during Q2 2007. There were four new wells brought on production resulting in a total of 58 producing wells during the quarter (Q1 2007: 54 producing wells).

### OML126

In Q2 2007, production was 68% higher than in Q2 2006 due to the addition of five new producing wells since Q1 2006. There were no new wells brought on production during 2007. Total producing wells remained at 12.

### OML124

OML124 production almost doubled compared to Q2 2006 as a result of two new wells which were brought on production during Q1 2007 and none in Q2 2007 to remain at 16 producing wells at June 2007. Production has been steadily increasing through 2006 and into 2007 due to a well workover campaign.

## Gabon Properties

As the PanAfrican acquisition occurred in Q3 2006, there are no Addax Petroleum comparatives for Q2 2006. The Gabon properties produced an average of 12.4 Mbb/d in Q4 2006 and 18.9 Mbb/d Q2 2007. To give an indication of the operational history for these properties, the following table shows the average net working interest production for the Gabon properties for the 2006 year when they were operated by PanAfrican:

Average net working interest oil production (Mbb/d)	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Before Royalties:</b>				
Gabon				
Panthere NZE	2.9	1.5	2.9	1.6
Maghena	8.9	2.6	8.6	1.8
Remboué	0.7	0.9	0.7	0.8
Subtotal – Onshore	12.5	5.0	12.2	4.2
Etame	6.4	5.6	6.4	5.6
Total - Gabon	18.9	10.6	18.6	9.8

Overall, Gabon production for the quarter was hindered by various export shutdowns, shut-in wells and operational breakdowns on the onshore export facilities which are controlled by another operator. Remedial actions were developed with the aim to improve performance in Q3 2007.

### Maghena & Panthere NZE

During Q2 2007, there were three new wells added in Maghena and none in Panthere NZE. A new pipeline was commissioned in Q4 2006, allowing for additional production by the Maghena and Panthere NZE licenses compared to 2006. There were three wells shut-in for drilling operations resulting in the total producing wells remaining at 21 consistent with Q1 2007. During April 2007, a 6" pipeline was decommissioned and Panthere NZE's production was shipped through a 10" pipeline. This shared pipeline had various shut downs throughout the period, but most were for less than 12 hours each. Furthermore, the third party operators of the Coucal facilities shut down production after all three heaters were found to be leaking. The Maghena block introduced a well stimulation program to increase production volumes. Addax Petroleum has a 92.5% working interest and is the operator in both Maghena and Panthere NZE.

### Remboué

During Q2 2007, Remboué continued producing from the existing seven wells in production at Q1 2007. Addax Petroleum has a 92% working interest in this license and is the operator.

### Etame

Etame had no new wells brought on production during Q2 2007, resulting in a total number of producing wells to remain at five. The FPSO has experienced capacity constraints resulting in restricted production for which the technical team is evaluating alternatives in order to remove the constraints. Addax Petroleum has a 31.36% non-operated working interest in the Etame license.

## CRUDE OIL MARKETING AND PRICES

During Q2 2007, Addax Petroleum continued to produce and sell crude oil from its three existing streams in Nigeria: Antan (OML123), Brass (OML124) and Okwori (OML126) and four streams in Gabon: Panthere NZE (Obangue field), Maghena (Tsiengui field), Remboué, and Etame. Summarized below are the periods' average realized sales prices and effective premiums or discounts relative to the Dated Brent Benchmark Price for each producing region and for material individual streams.

Average realized sales prices and effective premiums or discount (US\$/bbl)	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Average Dated Brent Benchmark Price	68.76	69.62	63.26	65.69
Nigeria Total				
Average Premium (Discount)	(0.10)	(1.75)	0.53	(2.09)
Average Realized Sales Price	68.69	67.85	63.74	63.95
OML123				
Average Premium (Discount)	(2.67)	(3.16)	(2.26)	(3.97)
Average Realized Sales Price	65.99	66.09	61.84	62.10
OML126				
Average Premium (Discount)	3.65	0.87	3.30	1.14
Average Realized Sales Price	72.70	70.16	65.55	67.02
Gabon Total				
Average Premium (Discount)	(3.58)	--	(3.30)	--
Average Realized Sales Price	65.30	--	59.62	--
Panthere NZE				
Average Premium (Discount)	(3.13)	--	(3.55)	--
Average Realized Sales Price	65.62	--	59.58	--
Maghena				
Average Premium (Discount)	(5.44)	--	(4.18)	--
Average Realized Sales Price	63.31	--	59.16	--
Etame				
Average Premium (Discount)	(0.37)	--	(1.57)	--
Average Realized Sales Price	68.91	--	60.84	--
<b>Total Average Realized Sales Price</b>	<b>68.21</b>	<b>67.85</b>	<b>63.09</b>	<b>63.95</b>

(Note 1) The Average Dated Brent Benchmark Price represents the average of monthly values for the period in question. Individual sales prices are expressed as differentials to Dated Brent over shorter periods, related to the time of delivery. Accordingly, the difference between the reported Average Realized Prices and Average Dated Brent Benchmark Prices may not correspond to the Average Premium (Discount) to Brent Crude. The average realizations for Nigeria and Gabon are weighted by volume of the relevant grades.

(Note 2) OML124 and Remboué average realized sales price and average premium (discount) are included in the Nigerian Total and Gabon Total, respectively, however not shown separately.

International crude prices (as measured by such benchmarks as Dated Brent) remained strong through Q2 2007, trading between \$60/bbl and \$70/bbl before reaching over \$73.50/bbl at the end of June 2007. The average Dated Brent price for Q2 2007 was \$68.76, which was an increase of 19% from Q1 2007, but down approximately 1% from Q2 2006. On a year to date basis, the average Dated Brent was 4% lower than year to date Q2 2006. OPEC's output cuts (agreed in late 2006) have been kept in place during 2007, despite the marginal loss of crude production from the Kurdistan region of Iraq and Nigeria due to civil unrest. Gulf crude production was briefly disrupted in early June 2007 by Cyclone Gonu, a storm of unusual strength for this region, but the associated price spike was short-lived.

Refined products demand stayed buoyant and prices remained firm as refinery throughputs fell due to planned maintenance and some unplanned outages. Concerns over lower US gasoline inventories ahead of peak summer demand provided further crude price support, keeping refining margins robust. In the absence of increased production from OPEC, the market sentiment during Q3 2007 is likely to be driven by US gasoline demand and the risk to supplies posed by hurricanes in the United States.

The Nigeria crude improved from selling at an average discount of \$1.75/bbl in Q2 2006 to a discount of \$0.10/bbl in Q2 2007. This improvement is consistent with the trend throughout the 2006 and 2007 periods. Sales from OML126 were originally discounted as a new grade when first coming on stream in 2005, however has been improving throughout 2006 and into 2007.

The Gabonese streams are sold under long-term contracts which require prices to be based on the monthly prices issued by the Department of Gas and Hydrocarbons, Government of Gabon for its major export streams.

## PETROLEUM SALES AND SALES VOLUMES

Petroleum sales are reported on the basis of oil volumes sold before royalties and exclude any volumes held as inventory or underlift at the end of the period. Overlifts are accounted for as deferred income on the balance sheet. Inventory held as at Q2 2007 in Nigeria was 1,370 Mbbls compared with 1,374 Mbbls as at Q1 2007. Gabon had 223 Mbbls of inventory at Q2 2007 compared to 85 Mbbls at Q1 2007. The petroleum sales volumes, revenues and mixes are as set out in the tables below:

Petroleum Sales <i>(US\$ million, MMbbl or %, as indicated)</i>	Revenues		Sales Volumes (MMbbl)		Volume %	
	Three months ended		Three months ended		Three months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Nigeria						
OML123	360	320	5.4	4.8	50%	63%
OML126	256	179	3.5	2.6	32%	33%
Subtotal – Offshore	616	499	8.9	7.4	82%	96%
OML124	35	24	0.5	0.3	5%	4%
Subtotal – Nigeria	651	523	9.4	7.7	87%	100%
Gabon						
Panthere NZE	17	--	0.3	--	2%	--
Maghena	51	--	0.8	--	7%	--
Remboué	2	--	--	--	--	--
Subtotal – Onshore	70	--	1.1	--	9%	--
Etame	32	--	0.5	--	4%	--
Subtotal – Gabon	102	--	1.6	--	13%	--
<b>Total Petroleum Sales</b>	<b>753</b>	<b>523</b>	<b>11.0</b>	<b>7.7</b>	<b>100%</b>	<b>100%</b>

Petroleum Sales <i>(US\$ million, MMbbl or %, as indicated)</i>	Revenues		Sales Volumes (MMbbl)		Volume %	
	Six months ended		Six months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Nigeria						
OML123	564	563	9.1	9.1	42%	63%
OML126	543	318	8.3	4.7	38%	33%
Subtotal – Offshore	1,107	881	17.4	13.8	80%	96%
OML124	70	36	1.0	0.5	5%	4%
Subtotal – Nigeria	1,177	917	18.4	14.3	85%	100%
Gabon						
Panthere NZE	31	--	0.5	--	2%	--
Maghena	98	--	1.7	--	8%	--
Remboué	5	--	0.1	--	--	--
Subtotal – Onshore	134	--	2.3	--	10%	--
Etame	69	--	1.1	--	5%	--
Subtotal – Gabon	203	--	3.4	--	15%	--
<b>Total Petroleum Sales</b>	<b>1,380</b>	<b>917</b>	<b>21.8</b>	<b>14.3</b>	<b>100%</b>	<b>100%</b>

*(Note 1) Comparative percentages are calculated using un-rounded volumes.*

## ROYALTIES

In Nigeria, royalties are comprised of Royalty Oil, Niger Delta Development Corporation ("NDDC") levy, Education Tax, Nigeria National Petroleum Corporation's ("NNPC") share of Profit Oil and the Cost Penalty Arrangement. For the Okwori field, in the OML126 block, a profit share royalty is paid to one of the previous license holders of OML126, as part of the farmout agreement.

In Gabon, royalties include government royalties plus any Profit Oil payments in excess of the taxes payable at the Gabonese statutory rate. Royalties are determined in accordance with the applicable Production Sharing Contract ("PSC").

Royalties <i>(US\$ millions)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Nigeria – OML123/OML124</b>				
Royalty Oil	31	24	49	42
NDDC levy	9	3	14	6
Education Tax	4	5	6	8
NNPC's share of Profit Oil	36	34	47	59
Cost Penalty Arrangement	2	2	6	6
<b>Royalties – Nigeria OML123/124</b>	<b>82</b>	<b>68</b>	<b>122</b>	<b>121</b>
<b>Nigeria – OML126</b>				
Royalty Oil	17	8	33	14
NDDC levy	4	3	6	6
Education Tax	4	2	8	4
NNPC's share of Profit Oil	11	9	27	18
<b>Royalties – Nigeria OML126</b>	<b>36</b>	<b>22</b>	<b>74</b>	<b>42</b>
<b>Gabon</b>				
Royalty Oil	7	--	14	--
<b>Royalties – Gabon</b>	<b>7</b>	<b>--</b>	<b>14</b>	<b>--</b>
<b>Total Royalties</b>	<b>125</b>	<b>90</b>	<b>210</b>	<b>163</b>
<b>Royalties as a percentage of sales revenue from each location:</b>				
<b>Nigeria total</b>				
OML123/124	21%	20%	19%	20%
OML126	14%	12%	14%	13%
<b>Gabon</b>				
	6%	--	7%	--
<b>Royalties/bbl :</b>				
<b>Nigeria total</b>				
OML123/124	12.49	11.69	10.67	11.39
OML126	13.77	13.24	12.04	12.84
	10.33	8.48	8.99	8.82
<b>Gabon</b>				
	4.16	--	3.96	--
<b>Total Royalties/bbl</b>	<b>11.29</b>	<b>11.69</b>	<b>9.62</b>	<b>11.39</b>

Royalty Oil is levied on petroleum sales, with the percentage of Royalty Oil increasing with sales volumes. Profit Oil is the profit remaining after deducting royalties, production costs and taxes and is shared between NNPC and Addax Petroleum on a sliding scale based on monthly production.

The Royalty Oil in OML123/124 increased between Q2 2006 and Q2 2007, consistent with the increase in sales volumes. In OML126, Royalty Oil increased by 113% from Q2 2006, as a result of the higher volumes lifted and a slightly higher sales price.

Gabon royalties have remained relatively consistent since acquired in Q3 2006 and throughout 2007.

## OPERATING EXPENSES

The operating expenses presented below include costs relating to production, transportation and selling for both Nigerian and Gabonese operations.

Operating Expenses <i>(US\$ millions)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Nigeria				
OML123/124	36	37	74	73
OML126	14	17	35	28
<b>Total – Nigeria</b>	<b>50</b>	<b>54</b>	<b>109</b>	<b>101</b>
Gabon	13	--	38	--
<b>Total Operating Expenses</b>	<b>63</b>	<b>54</b>	<b>147</b>	<b>101</b>
<i>(US\$/bbl)</i>				
Nigeria total	5.32	6.99	5.90	7.05
OML123/124	6.08	7.17	7.31	7.58
OML126	4.04	6.64	4.17	6.00
Gabon	8.40	--	11.29	--
<b>Total Operating Expenses</b>	<b>5.75</b>	<b>6.99</b>	<b>6.72</b>	<b>7.05</b>

There continues to be upward pressure on operating costs world-wide due to high demand for oil services in Q2 2007. Addax Petroleum endeavours to mitigate this upward pressure through a number of methods such as using competitive bidding procedures and awarding long-term contracts. However, with crude oil prices remaining high, upward cost pressure is expected to continue.

The total Nigerian operating expenses have declined during Q2 2007, due to lower maintenance costs and FPSO cost savings.

Gabon's current Q2 2007 operating costs per barrel have declined from Q1 2007. During Q1 2007, two offices related to the Gabon operations were closed, which incurred employee redundancy and other associated costs and increased operating costs for Q1 2007. As these offices solely supported the Gabon operations, the related costs are included as operating costs but did not recur during Q2 2007.

## OPERATING NETBACKS

Operating netbacks is a non-Generally Accepted Accounting Principles ("GAAP") measure and represents the per barrel pre-tax profit margin associated with the production and sale of crude oil and is calculated as the average realized sales price less royalties and operating expenses, on a per barrel basis. The components of operating netbacks are shown below:

Operating Netbacks (US\$/bbl)	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Nigeria - OML123/124</b>				
Average Realized Sales Price	66.32	66.74	62.26	62.48
Royalties	(13.77)	(13.24)	(12.04)	(12.84)
Net Sales	52.55	53.50	50.22	49.64
Operating Expenses	(6.08)	(7.17)	(7.31)	(7.58)
Operating Netback, before tax - OML123/124	46.47	46.33	42.91	42.06
<b>Nigeria - OML126</b>				
Average Realized Sales Price	72.70	70.16	65.55	67.02
Royalties	(10.33)	(8.48)	(8.99)	(8.82)
Net Realized Sales Price	62.37	61.68	56.56	58.20
Operating Expenses	(4.04)	(6.64)	(4.17)	(6.00)
Operating Netback, before tax - OML126	58.33	55.04	52.39	52.20
<b>Nigeria - TOTAL</b>				
Average Realized Sales Price	68.69	67.85	63.74	63.95
Royalties	(12.49)	(11.69)	(10.67)	(11.39)
Net Sales	56.20	56.16	53.07	52.56
Operating Expenses	(5.32)	(6.99)	(5.90)	(7.05)
Operating Netback, before tax - Nigeria	50.88	49.17	47.17	45.51
<b>Gabon</b>				
Average Realized Sales Price	65.30	--	59.62	--
Royalties	(4.16)	--	(3.96)	--
Net Sales	61.14	--	55.66	--
Operating Expenses	(8.40)	--	(11.29)	--
Operating Netback, before tax - Gabon	52.74	--	44.37	--
<b>Total Addax</b>				
Average Realized Sales Price	68.21	67.85	63.09	63.95
Royalties	(11.29)	(11.69)	(9.62)	(11.39)
Net Sales	56.92	56.16	53.47	52.56
Operating Expenses	(5.75)	(6.99)	(6.72)	(7.05)
<b>Total Operating Netback, before tax</b>	<b>51.17</b>	<b>49.17</b>	<b>46.75</b>	<b>45.51</b>

In Nigeria, OML123/124 and OML126 operating netbacks have increased from Q2 2006. The primary reason for the increase resulted from lower per barrel operating cost as a result of lower maintenance and FPSO costs.

In Gabon, operating netbacks are higher than during Q1 2007 primarily due to higher averaged sales price and lower operating costs per barrel, offset somewhat by higher royalties. Operating Costs decreased as there were no recurring costs associated with the closure of the Gabon offices which occurred in Q1 2007.

## DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

The costs of oil and natural gas properties are depleted on a unit-of-production basis by cost pool, based on Addax Petroleum's share of gross estimated proved reserves for that pool. Addax Petroleum currently has two producing cost pools – Nigeria and Gabon.

The proved reserves utilized to compute DD&A for the Nigerian cost pool were based on the independent reserve engineer's estimate of proved reserves at December 31, 2006. As at December 31, 2006, an independent, external company estimated gross working interest proved reserves for Addax Petroleum to be 182 MMbbl. These reserves have been used as a basis for 2007 depletion plus additional P1 reserve adjustments during 2007 and associated costs determined internally.

DD&A	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<i>(US\$ millions, unless otherwise stated)</i>				
Depletion				
Nigeria	108	64	202	121
Gabon	30	--	65	--
Total Depletion	138	64	267	121
PER BARREL SOLD (US\$/bbl):				
Nigeria	11.41	8.15	10.98	8.50
Gabon	18.91	--	19.05	--
Total Depletion	12.52	8.15	12.24	8.50
Accretion of asset retirement obligation				
Nigeria	3	1	3	1
Gabon	--	--	1	--
Total Accretion	3	1	4	--
Depreciation				
Corporate and Other	5	--	6	--
Total Depreciation	5	--	6	--
<b>Total DD&amp;A</b>	<b>146</b>	<b>65</b>	<b>277</b>	<b>122</b>

In Nigeria, depletion increased per barrel in Q2 2007 compared with Q2 2006 and Q1 2007 due to an increased depletable base as a result of 2007 decommissioning studies.

A decommissioning review on OML124, OML126, the Gabon and the Kurdistan region of Iraq assets was conducted during Q2 2007 and as a result, the asset retirement obligation and capital assets were increased by \$52 million. For producing properties, this adjustment also influenced the depletable base for DD&A calculations and primarily accounts for the increase in depletion cost per barrel. The asset retirement provision was increased by \$27 million for OML126, \$12 million for OML124, \$11 million for Gabon properties and \$2 million for the Taq Taq field in the Kurdistan region of Iraq. The decommissioning report for OML123 remains to be finalized, and as such the adjustment is expected in Q3 2007.

Gabon depletion/bbl includes amortization of the Q3 2006 acquisition differential between its purchase price fair value and pre-acquisition book value, which is amortized on a unit-of-production basis.

During Q2 2007, the depletable reserves were updated internally and associated reserves and costs were included in the depletion calculation.

## CORPORATE EXPENSES

Corporate expenses include items that do not relate to the operation of individual production streams. Shown below are general and administrative expenses mainly incurred by corporate services, pre-acquisition costs which are recognized in the income statement until licenses are in place, the cost of employee share-based compensation and other income and expenses.

Corporate Expenses <i>(US\$ millions, unless otherwise stated)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
General and administrative	11	5	18	9
G&A per barrel sold	1.00	0.74	0.82	0.62
Pre-acquisition expenses				
New venture costs - Nigeria	--	2	--	4
New venture costs - Other	1	2	5	4
Taq Taq pre-capitalisation costs	--	--	--	9
Total pre-acquisition expenses	1	4	5	17
Share-Based Compensation	3	13	9	13
Earnings per share impact (US\$/basic share)	0.02	0.09	0.06	0.09
Other Expenses				
Interest	27	2	45	2
Foreign exchange (gain) loss	-	(2)	1	(2)
Other (income) expense	(1)	(2)	(2)	(3)
Total other	26	(2)	44	(3)
<b>Total Corporate Charges</b>	<b>41</b>	<b>20</b>	<b>76</b>	<b>36</b>

General and administration costs have increased in order to support the growth in Addax Petroleum's production volumes in Nigeria, the Gabon PanAfrican operations acquired in Q3 2006, as well as the increased administrative requirements of being a public company. In addition, there are costs relating to the implementation of Multilateral Instrument 52-109 and employee bonus accruals of approximately \$2 million during Q2 2007 and \$3 million relating to the listing of Addax Petroleum on the London Stock Exchange and costs relating to the convertible bond issue. In prior years the bonus costs were recognized in the fourth quarter whereas in 2007 such costs will be estimated and provided for throughout the year.

Pre-acquisition expenses relate to costs from Addax Petroleum's new venture activity. Related expenditures are charged to the income statement pending finalization of Addax Petroleum's rights to a license. These costs include seismic purchases, studies (in house and external) and consulting. Q2 2007 pre-acquisition costs have declined compared to Q2 2006 as Q2 2006 pre-acquisition costs related primarily to the JDZ blocks.

Share-based compensation relates to share awards to employees and directors of Addax Petroleum which commenced during the second half of 2006. 1 million common shares of Addax Petroleum were awarded by The Addax and Oryx Group Ltd. ("AOG") to employees during Q2 2006. These shares vest over three years ending March 2008. During Q3 and Q4 2006, Addax Petroleum also awarded common shares to employees as part of a long-term incentive plan. The 2007 charge relates to the amortization of the 2006 employee share-based compensation plan, for which a portion vests during 2007. With the 2007 employee share-based compensation award being given in August 2007, it is anticipated that the Q3 2007 charge for share-based compensation will be \$19 million.

Interest and debt commitment fees directly attributable to development activities are capitalized to the respective cost pools and amortized on a unit-of-production basis with the cost pool to which it relates, or otherwise expensed. Interest and debt commitment fees that are not directly attributable to development activities are expensed as incurred. The interest expensed in Q2 2007 increased compared to Q2 2006 due to the expansion of the debt financing facility, which was originally put in place in Q3 2006 as well as the convertible bonds issued during Q2 2007. The convertible bonds incur approximately \$2 million of interest expense per month and included in the Q2 2007 interest charge is the first month's interest. Of this, \$1 million is an accrual for the interest coupon payment payable November 2007 and the remainder is amortization of the bond liability using the effective interest method.

## INCOME TAXES

Income taxes in Nigeria and Gabon are pursuant to the PSCs which govern Addax Petroleum's operations in each of its properties and are affected by fluctuations in prevailing world oil prices, actual operating costs and the amount and timing of capital expenditures. The applicable rate for Addax Petroleum's Nigerian PSC is 60% of taxable profit which is calculated as revenues less royalties, non-capital costs, capital depreciation and an investment tax allowance. The corporate tax rate in Gabon is 35%. There are currently no income taxes payable by Addax Petroleum in Canada.

Current and Future Income Taxes <i>(US\$ millions)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Current Income Taxes</b>				
Nigeria				
OML123/124	127	131	162	208
OML126	84	45	202	52
<b>Total – Nigeria</b>	<b>211</b>	<b>176</b>	<b>364</b>	<b>260</b>
Gabon	23	--	42	--
Other	1	--	1	--
<b>Total Current Income Taxes</b>	<b>235</b>	<b>176</b>	<b>407</b>	<b>260</b>
<b>Future Income Taxes</b>				
Nigeria				
OML123/124	20	10	59	23
OML126	22	50	24	98
<b>Total Future Income Taxes</b>	<b>42</b>	<b>60</b>	<b>83</b>	<b>121</b>

The current income taxes in OML123/124 remained relatively stable in Q2 2007 compared to the same period for 2006, with sales increasing offset by higher capital expenditures which were deducted from taxable income. For the six month period, the current income taxes have reduced compared to the same period in 2006 due to higher capital expenditures in 2007.

The substantial increase in current taxes on OML126 for Q2 2007 compared to the same period in 2006 is due to the increase of petroleum sales and the reduction in capital expenditures which are deducted from taxable income.

Under the terms of its various PSCs, Addax Petroleum is liable for taxes in Gabon. These taxes are satisfied out of a portion of the Government of Gabon's share of Profit Oil. Profit Oil is presented as current income tax until such time as it exceeds 35% of profit before income taxes for producing properties. Any excess or shortfall is subsequently recorded as royalty expense for the year. Current taxation for the quarter was \$23 million compared with \$19 million in Q1 2007, increasing as a result of sales volumes.

The future income taxes on OML123/124 have increased in the quarter due to the increase in capital expenditures on drilling which are capitalized in the financial statements, but expensed in calculating taxable income, giving rise to temporary differences. The future income taxes on OML126 have decreased in the quarter due to the reduction in capital expenditures which reduces the timing differences between the financial statements and the calculation of taxable income.

There are no future income taxes for Gabon because there are no temporary differences related to accounting for income taxes.

There is a pending court case between Addax Petroleum and the Federal Board of the Inland Revenue, in Nigeria, following audits for the years 2002 to 2004 conducted by the Nigeria Federal Inland Revenue Service. The case relates to income and value added taxes on charges from Addax Petroleum Services to the Addax Nigerian companies, and the valuation of revenue for petroleum profits tax. The claim is for \$16 million in taxes, and Addax has provisioned for the estimated expense.

## CAPITAL EXPENDITURE

For management's purposes, capital expenditures are analyzed by production stream or region and by the type of expenditure. Exploration costs relate to exploration drilling and seismic acquisition and processing.

Capital Expenditure by Area and Type <i>(US\$ millions)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Nigeria</b>				
OML123/124				
Exploration and appraisal	--	--	30	--
Development drilling	81	34	140	63
Facilities	30	24	59	66
Other -Office	8	4	12	7
Capital Expenditure - OML123/124	119	62	241	136
OML126 / OML137				
Exploration and appraisal	45	6	57	6
Development drilling	9	37	35	80
Facilities	1	29	1	53
Other	--	7	1	29
Capital Expenditure - OML126 / OML137	55	79	94	168
OML67 (Okwok)				
Appraisal drilling	--	3	--	3
Other	2	36	4	36
Capital Expenditure - OML67	2	39	4	39
OPL291				
Exploration and appraisal	1	--	1	--
Capital Expenditure - OPL291	1	--	1	--
<b>Total Capital Expenditure - Nigeria</b>	<b>177</b>	<b>180</b>	<b>340</b>	<b>343</b>
<b>Gabon</b>				
Exploration and appraisal	2	1	9	1
Development drilling	22	--	38	--
Facilities and Pipeline	20	--	28	--
Other	(1)	--	(1)	--
<b>Total Capital Expenditure - Gabon</b>	<b>43</b>	<b>1</b>	<b>74</b>	<b>1</b>
<b>Other Regions / Properties</b>				
Cameroon - Exploration phase	1	--	3	7
JDZ Block 2 - Exploration phase	1	4	2	19
JDZ Block 3 - Exploration phase	--	3	1	13
JDZ Block 4 - Exploration phase	--	29	1	70
Taq Taq - Appraisal & development	35	11	50	11
Other - Corporate	4	1	6	11
<b>Total Capital Expenditure - Other</b>	<b>41</b>	<b>48</b>	<b>63</b>	<b>131</b>
<b>Total Capital Expenditure</b>	<b>261</b>	<b>229</b>	<b>477</b>	<b>475</b>

The capital expenditure above does not include capital costs relating to the acquisition of PanAfrican during 2006.

Total capital expenditure increased by 14% in Q2 2007 compared with Q2 2006. The increase is mainly due to the acquisition of the Gabon assets. Furthermore, there was an increase in drilling costs in OML123/124 with three rigs operating in Q2 2007 compared to two rigs in Q2 2006. This increase was offset by completion of facility work in OML126 in 2006. Overall, there was continuing exploration and appraisal in OML126/137, development drilling in OML123/124 and an increase of the number of drilling rigs operating for Addax Petroleum from three in Q2 2006 to four in Nigeria and two in Gabon at Q2 2007.

There is upward pressure on capital expenditure due to high demand for oil services, especially drilling rigs. Addax Petroleum continues to mitigate this upward pressure through means such as competitive bidding procedures and the use of long-term contracts. However, with crude oil prices at high levels, upward cost pressure is expected to continue.

In Nigeria, capital expenditure totalled \$177 million for Q2 2007 including exploration and appraisal expenditures of \$48 million which resulted in a successful oil discovery well in OML137 and a successful appraisal well. These results are in addition to the Q1 2007 discovery of a new accumulation in Antan OML123. The development drilling expenditure of \$90 million was incurred to bring four new production wells online (Q2 2007 year to date: 10). Development drilling expenditure in Nigeria included the drilling of seven development/appraisal wells in OML123, one development well in OML124, and two OML137 exploration wells.

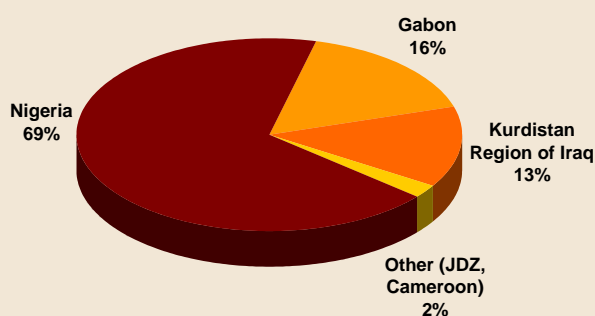
In Gabon, the acquisition of PanAfrican was completed in September 2006. Capital expenditure totalled \$43 million in Q2 2007. The majority of the exploration and appraisal expenditures related to the successful Autour appraisal well in Panthere NZE. The development drilling costs for Maghena delivered three new production wells in Q2 2007 resulting in a total year to date of six. In the non-operated field of Avouma, a new production platform was completed in Q4 2006 and its first production well commenced during Q1 2007. Q2 2007 facilities and pipeline expenditures relate to the Maghena and Panthere NZE permanent production facilities construction, and Avouma non-operated phase two modification expenditures.

Cameroon capital expenditures in 2006 related mainly to the offshore 3D seismic survey and Q2 2007 costs are for the continued preparation of the upcoming exploration drilling program. There are two exploration wells planned for Q4 2007 and in Okwok there is an appraisal well planned in 2007. In April 2007, the Technical and Management Committees met and approved the location for two Cameroon exploration wells planned for later in 2007. The rig-selection is progressing.

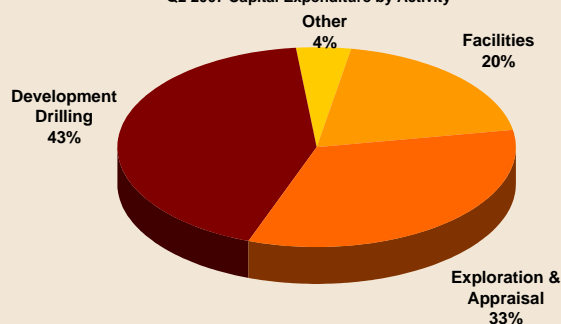
Capital expenditure in Q2 2006 for the three JDZ blocks includes final signature bonuses and farm-in fees. Q2 2007 expenditures are for the preparation for the upcoming exploration drilling program.

Expenditures in the Kurdistan region of Iraq were not capitalized until Q2 2006. Expenditures in Q2 2007 mainly relate to appraisal drilling and seismic operations on the Taq Taq field. There has been one appraisal well drilled and a second progressing. It is intended that these wells will be followed by three delineation wells in 2007 as well as a 3D seismic survey. Also in the Kurdistan region of Iraq, a 2D survey is proceeding on the Kewa Chirmila prospect.

Q2 2007 Capital Expenditure by Country



Q2 2007 Capital Expenditure by Activity



## Major Capital Projects

The capital expenditure for Nigeria and Gabon has been analyzed by significant projects below.

Capital Expenditure by significant project for Nigeria and Gabon <i>(US\$ millions)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
<b>Nigeria</b>				
OML123/124				
Adanga redevelopment facilities	1	1	2	1
Oron development facilities	32	--	53	--
FPSO replacement	--	36	--	55
OML126				
Okwori	2	27	36	70
Nda	--	46	--	78
<b>Gabon</b>				
Obangue field development	11	--	16	--
Tsiengui field development	25	--	41	--
Etame field development	2	--	6	--

In OML123, the major capital project in Q2 2007 was the greater Oron development, which requires facilities and development drilling during 2007. The installation of 4" and 10" pipelines between two of the Oron facilities was completed in May 2007.

In OML126, at the Okwori field, the development drilling concluded in Q1 2007. The Nda field development was completed during 2006. The remaining capital expenditure relates to the gas export pipeline which is forecast to cost approximately \$40 million over 2007 and 2008.

In Gabon, the major capital projects are the further development of the Tsiengui and Obangue fields onshore. The Obangue East development will commence during 2007 with its first oil expected by year end 2007. Preparations for a 3D seismic survey have been undertaken for the Obangue and Tsiengui fields. An Environmental Impact Assessment has been completed for the Obangue 3D seismic survey.

Cameroon, Okwok, Taq Taq, OPL291 and the three JDZ deep water blocks are in the appraisal and exploration stages. Modelling work for seismic acquisition design in the OPL291 block is being conducted. Furthermore, reprocessed data for the JDZ blocks has been obtained and is being evaluated.

During Q1 2007, Addax Petroleum, through a wholly owned subsidiary, entered into an agreement with Aban Abraham Pte Ltd ("Aban"), a wholly owned subsidiary of Aban Offshore Limited, an Indian public company, for the provision of the Aban Abraham deep water drillship in JDZ blocks 2 and 4 and OPL291. The contract, which has been entered into jointly with an operator of another JDZ block, requires Aban to drill up to ten wells in total comprising of five firm well slots and five optional well slots. The Aban is currently being refurbished with completion expected for the end of 2007 or early 2008. Based on current scheduling estimates, the earliest it could be available for Addax Petroleum drilling operations is Q4 2008.

A seismic acquisition campaign is planned for OPL291. The operator of JDZ 3 is sourcing a drilling rig for its planned operations.

## FUNDS FLOW FROM OPERATIONS ("FFFO")

The components of FFFO are set out as follows:

Funds Flow From Operations ("FFFO") <i>(US\$ millions, unless otherwise stated)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Net Income	101	58	180	114
Adjustments for non-cash items:				
DD&A	146	65	277	122
Stock-based compensation	3	13	9	13
Future income taxes	42	60	83	121
Foreign exchange (gain) Loss	--	--	1	--
Other	(5)	--	--	--
<b>FFFO</b>	<b>287</b>	<b>196</b>	<b>550</b>	<b>370</b>
Changes in non-cash working capital	(336)	115	(417)	92
<b>Cash Flows from Operating Activities</b>	<b>(49)</b>	<b>311</b>	<b>133</b>	<b>462</b>
Weighted average common shares outstanding (millions)	155	140	155	134
FFFO per share (US\$/basic share)	1.85	1.40	3.55	2.76

FFFO increased by 46% in Q2 2007 compared with Q2 2006 due to the 44% increase in sales.

## Changes in Working Capital and Capital Structure

The following table shows the capital structure of Addax Petroleum at the quarter ends.

Capital Structure <i>(US\$ millions)</i>	30-Jun 2007	31-Mar 2007	31-Dec 2006	30-Sep 2006	30-Jun 2006	31-Mar 2006
Accounts receivable	187	153	179	194	210	121
Partner advance	21	21	21	21	3	2
Inventories	162	104	121	111	96	90
Prepaid expenses	37	41	26	31	17	35
Accounts payable and accrued liabilities	(345)	(372)	(364)	(304)	(284)	(293)
Income taxes and royalties payable	(176)	(397)	(510)	(475)	(424)	(216)
Deferred revenue	--	--	4	--	--	--
<b>Total non-cash working capital</b>	<b>(114)</b>	<b>(450)</b>	<b>(523)</b>	<b>(422)</b>	<b>(382)</b>	<b>(261)</b>
Cash and cash equivalents	71	93	34	143	334	249
<b>Total net working capital</b>	<b>(43)</b>	<b>(357)</b>	<b>(489)</b>	<b>(279)</b>	<b>(48)</b>	<b>(12)</b>
Short-term debt	--	--	--	850	--	--
Long-term debt	950	975	830	--	--	--
Bond liability	239	--	--	--	--	--
Shareholders equity	1,400	1,247	1,168	1,116	698	628

Addax Petroleum's working capital deficit has decreased in 2007, as anticipated in the Q4 2006 MD&A. Current liabilities decreased primarily due to NNPC lifting more crude oil during 2007 as a reimbursement of current and prior years' taxes payable resulting in a reduction of income taxes and royalties payable of \$221 million in the quarter. These payments will continue through the remainder of 2007, however as this liability has been reduced, future periods' cash flow from operations are expected to be in a cash inflow position.

In January 2007, Addax Petroleum entered into a five year, \$1,500 million senior secured revolving debt facility with BNP Paribas, Natixis and Standard Chartered Bank which was used to re-finance the previous bridge facility. During Q2 2007, this facility was increased to \$1,600 million. At the end of Q2 2007, the facility and letters of credit were drawn down by \$950 million and \$131 million, respectively.

In May, 2007, Addax Petroleum issued \$300 million principal amount of 3.75% unsecured convertible bonds for net proceeds of \$294 million. These bonds have been classified as debt net of the fair value of any conversion feature, which has been recorded in shareholders' equity. Issue costs have also been allocated between the debt and equity portions, with the cost allocated to equity being charged to earnings in the current period. The costs allocated to the debt, have been included in the convertible bond liability and are being amortized along with the bond accretion until maturity, May 31, 2012. Addax Petroleum may elect for a net cash settlement, rather than settling fully in shares, which would result in a cash outflow should this option be chosen.

### Consolidated Changes in Cash Flow

The following table summarizes the principal components of Addax Petroleum's consolidated cash flows for the periods indicated:

Cash flow (US\$ millions)	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Funds flow from operations	287	196	550	370
(Increase)/decrease in non-cash working capital	(336)	115	(417)	92
Cash flows from operating activities	(49)	311	133	462
Net cash flows from investing activities	(235)	(226)	(478)	(328)
Net cash flows from financing activities	262	--	382	193
Net increase in cash and cash equivalents	(22)	85	37	327

Cash flows from operating activities increased primarily due to increased sales in Q2 2007 compared to Q2 2006 (44%), which was offset by an increase in non-cash working capital. Non-cash working capital increased in Q2 2007 due to Nigerian government liftings during the period resulting in a net reduction of income taxes and royalties payable during Q2 2007 of \$221 million and year to date 2007 of \$334 million.

The net cash flows from investing activities remain relatively consistent compared to prior quarters and relates to the investment in capital projects.

The proceeds from the convertible debt issued during May 2007 were the primary source of the cash flows from financing activities. Movements in the long-term revolving credit facility also are included in this amount.

### LIQUIDITY AND CAPITAL RESOURCES

Addax Petroleum's principal source of liquidity has been fund flows generated from operations which have been supplemented as necessary by senior debt facilities and equity funds generated from public offerings during 2006. These funds were used to meet increased capital expenditures, primarily for the development of the Okwori property in OML126 and expenditure relating to the JDZ blocks and the Taq Taq field. A \$1,500 million senior debt facility was secured during Q1 2007, increased to \$1,600 million during Q2 2007, and was partially used to re-finance the former acquisition bridge facility arranged in Q3 2006 for the PanAfrican acquisition. Addax Petroleum expects that this capital funding along with continued operational income will allow for currently planned short and long-term operations.

Further funds were received during the current quarter upon the issuance of the convertible bonds with net proceeds of \$294 million maturing May 31, 2012. The primary use of the funds has been to reduce long-term debt.

NNPC commenced lifting its Royalty Oil and Tax Oil in January 2007 from OML126, and NNPC has increased liftings of Royalty Oil and Tax Oil from OML123 and OML124 during 2007.

Provided applicable solvency and corporate requirements are satisfied, there are no legal or practical restrictions in Nigeria or Gabon on the ability of Addax Petroleum's Nigerian and Gabonese subsidiaries to transfer funds to Addax Petroleum in the form of cash dividends, loans or advances. In addition, there are no contractual restrictions on such transfers of funds to Addax Petroleum by its Nigerian and Gabonese subsidiaries. Addax Petroleum has not experienced seasonal variations in its cash flows.

## ECONOMIC SENSITIVITIES

The following table shows the estimated after-tax effect that changes to crude oil prices, crude oil production, operating costs and interest rate would have had on Addax Petroleum's net income for the six months ended June 30, 2007, had these changes occurred on January 1, 2007. These calculations are based on business conditions, production and sales volumes existing for the current period. The 1,000 bbls/d increase has been pro-rated across OML123/OML124, OML126, Etame, Maghena, Panthere NZE and Remboué based on their percentage sales mix.

Economic Sensitivities	Change	Net Income impact	Net Income impact
	(+)	(US\$ million)	(US\$ per basic share)
Average realized price	\$1.00/bbl	7	0.04
Crude oil production	1,000 bbls/d	2	0.01
Increase in operating expenses	10%	(6)	(0.03)
Interest rate	1%	(5)	(0.02)

The impact of the above changes may be compounded or offset by changes to other business conditions. In addition, the table does not reflect any inter-relationships between the above factors.

Changes in the exchange rate between CDN\$ and US\$ has not been considered here as changes would not be significant to the results given the low number of transactions denominated in CDN\$.

## OUTLOOK FOR REMAINDER OF 2007

Addax Petroleum expects that the average production for the year will be 127 Mbb/d to 133 Mbb/d. Production is expected to increase as Addax Petroleum brings development wells on-stream in Oron, Ebughu and Adanga in Nigeria and Maghena and Panthere NZE in Gabon. Also, an increase in production of onshore Gabon is expected due to the increase in pipeline capacity and the bringing on-stream of production wells that were previously shut-in. Capital expenditure in 2007 is forecasted to be \$1,150 million, with \$340 million allocated for exploration and \$810 million for development expenditures. \$750 million is forecast to be spent on Nigerian producing assets, \$30 million to be spent on Nigerian non-producing assets, and \$240 million to be spent on Gabon producing assets, \$90 million on Taq Taq and \$40 million on other assets, primarily on JDZ and Cameroon.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Addax Petroleum has assumed various contractual obligations and commitments in the normal course of operations and financing activities. These obligations and commitments have been described in the December 31, 2006 MD&A and have not materially changed during Q2 2007, except as noted below.

### Long-term Debt

The long-term debt amount decreased during the quarter from \$975 million to \$950 million. The revolving debt facility was drawn down in April, May and June 2007 by \$275 million and then \$300 million was repaid in June 2007 resulting in the ending balance of \$950 million. Convertible debt was issued during May 2007, creating a new long-term convertible bond obligation as described in the 2007 Financial Update section.

### Exploration Commitment

The Taq Taq PSC does not have any monetary value included in its minimum commitments, however 80 kilometres of seismic and one well must be completed which have an estimated gross cost of \$12 million. At Q2 2007, the seismic commitment was fulfilled and the well commitment is planned to be drilled in 2008. Addax Petroleum has a 45% working interest in the Taq Taq license.

## CONTINGENT LIABILITIES

Following the acquisition of the Iris and Themis permits in Gabon, there are contingent commitments to pay approximately \$1 million in the event of a commercial discovery during the second, third or any subsequent exploration period and approximately \$1 million following the granting of an exploitation license by the Republic of Gabon.

There is a court case with the FIRS in Nigeria and management considers Addax Petroleum to be fully accrued for.

## RISK MANAGEMENT

Addax Petroleum has published its assessment of its business risks in the Risk Factors section of its AIF dated March 28, 2007 (available on SEDAR at [www.sedar.com](http://www.sedar.com)). It is recommended that this document be reviewed for a thorough discussion of risks faced by Addax Petroleum.

There are numerous factors which may affect the success of Addax Petroleum's business which are beyond its control including local, national and international economic, legal and political conditions. The business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The operations in certain developing countries, such as Nigeria, Cameroon, Gabon and the Kurdistan region of Iraq expose Addax Petroleum to potential civil unrest, political and currency risks. In particular, recent escalation in civil unrest in Nigeria and the Kurdistan region of Iraq may pose a threat to the operations in those countries and any intensification in the level of civil unrest may have a material adverse effect on Addax Petroleum's business, results of operations or financial condition.

### Financial Risk

Addax Petroleum is aware of its increased leverage and reviews its use of available facilities considering future capital expenditure, expected returns in production and oil price trends to ensure that the required repayments can be made. Addax Petroleum utilizes various financial instruments to manage its commodity prices, foreign currency and interest rate exposures. These financial instruments are not used for trading or speculative purposes.

### Commodity Price

Crude prices can be volatile and are subject to external forces in the worldwide market such as global demand, OPEC decisions, climatic events and trends and political influences which affect the supply and demand relationship. Addax Petroleum is subject to market fluctuations in the prices of oil and natural gas, uncertainties related to the delivery and proximity of its reserves to pipelines and processing facilities, including the ability to acquire space in pipelines to deliver oil and natural gas to commercial markets, and extensive government regulation relating to prices, taxes royalties, land tenure, allowable production, the export of oil and gas and many other aspects of the oil and gas business.

### Foreign Currency

Consistent with Q1 2007, Addax Petroleum has no immediate plans to put in place other hedges or financial instruments and currently has no hedges in place against any of its production. There have been no material changes with respect to Addax Petroleum's financial instrument position during 2007; please refer to note 12 to the audited consolidated December 31, 2006 financial statements. Addax Petroleum does not use financial instruments for trading or speculative purposes. The arrangements and policies concerning Addax Petroleum's financial instruments are under constant review and may change depending upon prevailing market conditions.

Currently, Addax Petroleum holds a foreign exchange forward contract to manage its exposure to foreign currency risk with respect to the Swiss franc against the US dollar. This contract is held as Addax Petroleum's corporate office is based in Geneva, Switzerland while the majority of operations use the US dollar. Gains or losses on foreign exchange forward contracts are included in other interest and finance charges. Addax Petroleum does not consider changes in the exchange rate between CDN\$ and US\$ as significant given the low number of transactions denominated in CDN\$ and, therefore, does not mitigate this risk with financial instruments.

### Credit

Credit risk relates to the risk that joint venture partners may not fulfill their contractual obligations, both financial and technical support, to contribute towards the exploration, development, appraisal and production operations. During the initial agreement negotiations and ratification, these risks are considered and incorporated into the terms of the contracts. Furthermore, cash calls can be made in advance of incurring costs to help ensure costs are recovered. However, it is possible that the interest of Addax Petroleum and its joint venture partners are not aligned resulting in project delays, additional costs or disagreements, which could adversely affect business results.

### **Strategic and Operating Risk**

Addax Petroleum is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; cost of capital risk associated with securing the needed capital to carry out Addax Petroleum's operations; risk of fluctuating foreign exchange rates; risk of carrying out operations with minimal environment impact; risk of governmental policies, social instability or other political, economic or diplomatic developments in its international operations; and non-performance by counterparties of contracts.

The business of exploring for, developing or acquiring reserves is capital intensive. To the extent that cash flows from operating activities is insufficient and external sources of capital become limited or unavailable, the ability to make the necessary capital investments to maintain and expand oil reserves could be impaired. There can be no assurance that Addax Petroleum will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs.

### ***Environment Risk – Regulatory and Political***

Addax Petroleum holds agreements with various governments in order to conduct business in particular license areas and under which, business and fiscal terms are specified. There is no guarantee that an unforeseen defect in title, changes in laws or change in their interpretation or political events will not arise to defeat or impair the claim to properties which could result in a material adverse effect including a reduction in revenue. Addax Petroleum aims to build positive relationships with the governments through both its corporate Geneva based staff field visits as well as local country offices contact. These dealings aim towards an ethical and positive working relationship.

As the majority of revenues are derived from licenses held through the Nigeria government, Addax Petroleum is more exposed to risks associated with this government, however through its PanAfrican acquisition in 2006 and exploration activities in the Kurdistan region of Iraq, it has diversified its locations.

### ***Operations Risk – Operating Hazards***

Addax Petroleum is subject to all of the operating risks normally associated with the exploration for, and the production, storage, transportation and marketing of oil and gas. These risks include blowouts, explosions, fire, gaseous leaks, migration of harmful substances and oil spills, any of which could cause personal injury, result in damage to, or destruction of oil and gas wells or formations or production facilities or other property, equipment and the environment, as well as interrupt operations. Addax Petroleum and operators of properties in which it has an interest maintain insurance against some, but not all, potential risks, however there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability or that Addax Petroleum will be obtain insurance to cover such risks. For example, there is no business interruption insurance held and therefore, it will suffer losses as a result of a shut-in or cessation in production.

There are also risks typically associated with oil and gas operations, including premature decline of reservoirs and invasion of water into producing formations. Certain properties are operated by third parties or may be subject to operating committees controlled by national oil companies, and as a result, Addax Petroleum has limited control over the nature and timing of exploration and developments of such properties or the manner in which operations are conducted.

### ***Integrity Risk – Reputation***

Future agreements, partner arrangements and employee attraction and retention may be influenced by the reputation held by Addax Petroleum within the industry. Addax Petroleum shares a trademark and a trade name with a group of companies and any adverse development affecting the trademark, trade name or reputation of any of those companies, their shareholders, directors, officers or employees could materially adversely affect the business, goodwill or reputation of Addax Petroleum. Through community development projects in the countries with operations, Addax Petroleum aims to positively influence the local communities.

### ***Operations Risk – Environment***

The oil industry is subject to worldwide pressures and potential regulation changes to manage greenhouse gas emissions. This may increase costs of production in order to comply with potential changes to environmental regulations or may affect the overall demand if purchasing trends change. Addax Petroleum is also subject to a variety of waste disposal, pollution control and similar environmental laws.

Environmental protection and conservation are a fundamental part of Addax Petroleum's operations. Addax Petroleum ensures that all new projects comply with the relevant standards and regulations and upgrades its existing facilities. The waste management policy promotes minimization and recycling. Addax Petroleum collaborates with local groups to promote environmental awareness and continuously re-evaluates its performance to ensure compliance.

### Operations Risk – Human Resources / Health Safety, Security and Environment (“HSSE”)

Addax Petroleum has direct responsibility for HSSE in its Nigerian, Gabonese and Cameroonian operated properties. Addax Petroleum focuses on proactive community development for stable operations, accident prevention, monitors operational compliance and advises management on statutory and industry requirements.

Addax Petroleum is highly dependent upon its executive officers and key employees, and success will be largely dependent upon the performance of such officers and key employees. In particular, the Chief Executive Officer, Jean Claude Gandur, has a number of key relationships that are important for business. The unexpected loss of the services of Mr. Gandur or other executive officers or key personnel could have a material adverse effect on Addax Petroleum.

### OFF-BALANCE SHEET ARRANGEMENTS

Addax Petroleum has no off-balance sheet arrangements that have a, or are reasonably likely to have, current or future effect on the results of operations or financial condition of Addax Petroleum, including, without limitation, such considerations as liquidity and capital resources. Operating leases are used in the normal course of business as disclosed in Contractual Obligations and Commitments. At June 30, 2007, there were outstanding letters of credit amounting to \$131 million supported by a Letter of Credit Tranche of \$300 million as part of the \$1,600 million Senior Secured Loan Facility. Addax Petroleum is not planning to engage in any other off-balance sheet arrangements in the foreseeable future.

### SUBSEQUENT EVENTS

A new rig for Cameroon operations has been contracted under an initial 180 day contract with an estimated total commitment value of \$32 million.

Under the long-term incentive plan, Addax Petroleum offered approximately 1 million common shares to employees on July 1, 2007. These common shares are subject to employee acceptance, and if accepted will vest over three years, commencing August 1, 2007. There will be 11,453 common shares issued under the directors' compensation program in August 2007.

On July 12, 2007, Addax Petroleum announced a discovery of oil and gas in the Ofrima North structure and gas in the Udele West structure on OML137. The Ofrima North exploration well discovered 140 feet gross oil bearing interval at a depth of approximately 7,000 feet subsea. A second exploration well in the Udele West structure discovered seven gas bearing intervals with individual gross gas columns of between 41 and 113 feet, 542 feet in aggregate, at depths ranging from 2,700 to 5,900 feet subsea. Both wells are currently suspended.

### SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

Outstanding Share Data <i>(millions)</i>	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Common Shares Outstanding				
Beginning of period	155	140	155	117
Issued	--	--	--	23
End of Period	155	140	155	140
Weighted average common shares outstanding	155	140	155	134

As at June 30, 2007, Addax Petroleum had convertible bonds outstanding which can be converted in common shares at an initial conversion price of CDN\$56.06 (fixed US\$-CDN\$ rate of \$1.000 – CDN\$1.108) per common share, at any time after October 1, 2007 until maturity on May 31, 2012. There were no stock options outstanding or any other security convertible into common shares.

The public offerings in 2006 and the share swap program during 2006 and 2007 have diluted the holdings of AOG. As at June 30, 2007 AOG's interest in Addax Petroleum stood at 41% which will be reduced to 36% following the transfers noted below. Although AOG no longer has majority control over Addax Petroleum, it remains the largest shareholder. During July 2007, AOG transferred approximately 8 million of Addax Petroleum common shares to third parties in exchange for the return of a certain number of its own shares.

During Q1 2007, 11,974 common shares were issued to directors for fees for services in lieu of cash as part of ongoing director's compensation program. During Q2 2007, there were no common shares issued to directors. An additional 11,453 common shares will be issued under the directors' compensation program, effective July 2007. Under the long-term incentive plan, Addax Petroleum offered approximately 1 million common shares to employees on July 1, 2007. These common shares are subject to employee acceptance, and if accepted will vest over three years, commencing August 1, 2007.

## **CRITICAL ACCOUNTING ESTIMATES**

The consolidated financial statements include the accounts of Addax and all of its subsidiaries. The consolidated financial statements have been prepared by management in accordance with Canadian 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 proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The convertible bond's liability and equity values and estimated life are based on a valuation prepared by the issuing financial institution and, furthermore, believed to be reasonable by Addax Petroleum management. 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.

## **CRITICAL ACCOUNTING POLICIES**

Refer to note 1 of the audited consolidated financial statements as at December 31, 2006 for a full description of Addax Petroleum's significant accounting policies.

### **Oil and Gas Accounting**

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. 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% 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 independent reservoir engineers and updated during the year internally. The carrying value 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.

### **Asset Retirement Obligations**

Addax Petroleum recognized as a liability the estimated fair value of the future retirement obligations associated with property, plant and equipment. The fair value is capitalized and amortized over the same period as the underlying asset. The fair value is determined on the basis of internal engineering and environmental studies for each well or facility and the estimate evaluated on a periodic basis and any adjustment to the estimate is prospectively applied.

### **Goodwill**

Goodwill represents the excess purchase price over 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.

### **Interest in Joint Ventures**

The consolidated financial statements include only Addax Petroleum's proportionate share of assets, liabilities, revenues and expenses from its corporate and unincorporated joint ventures.

### **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.

### **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 debt and equity components and those costs allocated to the equity element are recognized in the consolidated statement 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.

## **DISCLOSURE CONTROLS AND PROCEDURES**

As of December 31, 2006, an evaluation was carried out under the supervision of, and with the participation of Addax Petroleum's management including the Chief Executive Officer and the Chief Financial Officer, of the design and effectiveness of Addax Petroleum's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of Addax Petroleum's disclosure controls and procedures were effective as at December 31, 2006, and would provide reasonable assurance that material information relating to Addax Petroleum and its consolidated subsidiaries would be made known to them by others within those entities. Various opportunities to improve the design and operation of the Disclosure Controls and Procedures have been identified and approved by management. The actions necessary to implement these opportunities have been identified and will be implemented in 2007. These improvement opportunities do not affect the conclusions of the Chief Executive Officer and the Chief Financial Officer described above.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

As of December 31, 2006, an evaluation was carried out under the supervision of, and with the participation of Addax Petroleum's management including the Chief Executive Officer and the Chief Financial Officer, of the design of Addax Petroleum's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at December 31, 2006, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Various opportunities to improve the design and operation of internal control over financial reporting have been identified and approved by management. The actions necessary to implement these opportunities have been identified and will be implemented in 2007. These improvement opportunities do not affect the conclusions of the Chief Executive Officer and the Chief Financial Officer described above.

Addax acquired PanAfrican as of September 7, 2006. Since the acquisition, Addax has made significant changes to the internal controls over financial reporting associated with the former PanAfrican operations including: the transfer of financial management activities to Geneva, the closure of the former Jersey office of PanAfrican, the appointment of new senior management based in Gabon and re-definition of certain business processes. There have been no other changes in Addax Petroleum's internal control over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, Addax Petroleum's internal control over financial reporting.

## NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2007, Addax Petroleum prospectively adopted CICA Handbook Section 1530, Comprehensive Income. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized. There were no such components to be recognized in comprehensive income for 2007 year-to-date.

On January 1, 2007, Addax Petroleum prospectively adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. In accordance with this new standard, Addax Petroleum now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations. As a result of these changes, debt issue costs of \$20 million incurred during Q1 2007 were recorded as a reduction to long-term debt.

On January 1, 2007, Addax Petroleum prospectively adopted CICA Handbook Section 3865 Hedges. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. Addax Petroleum has not designated any hedging relationships. This new standard did not affect the Addax Petroleum's financial statements.

### Effect of Future Changes in Accounting Policies

During the quarter, the Accounting Standards Board amended the CICA Handbook Section 1400 General Standards of Financial Statement Presentation. This Section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are applicable to all entities and are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Addax Petroleum is not aware of factors which would raise concern over its ability to continue as a going concern, and therefore does not anticipate any additional disclosure will be required.

The new CICA Handbook Section 3031 Inventory was created and is applicable to interim and annual financial statements relating to fiscal years beginning on or after July 1, 2007. The new section provides guidance regarding the measurement of inventories including the allocation of costs such as overhead / fixed production costs and allows for the reversal of previous write-downs. Addax Petroleum management does not expect this policy to change its inventory valuation method in the financial statements.

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, (a) 3862, Financial Instruments – Disclosures; (b) 3863, Financial Instruments – Presentation; (c) 1535, Capital Disclosures and (e) 1400, General Standards of Financial Statement Presentation. Addax Petroleum is assessing the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

## TRANSACTIONS WITH RELATED PARTIES

Addax Petroleum has entered into no new transactions with related parties during Q2 2007. The ongoing transactions with AOG remain as noted below:

- Antan Crude Oil Supply Agreement, the Brass River Blend Crude Oil Supply Agreement and the Okwori Crude Oil Supply Agreement (collectively defined as the "Crude Oil Supply Agreements");
- Management Services Agreement;
- Bunkering Agreement;
- Agreement for Services of Jean Claude Gandur, effective January 1, 2006 between APS and AOG;
- Trademark Agreement;
- Non-Competition Agreement; and
- Share Transfer Agreement between a subsidiary of AOG and Addax Petroleum.

The following transactions took place between Addax Petroleum and AOG and its other subsidiary companies (as discussed further in Note 9 to the consolidated June 30, 2007 financial statements):

Related party Transactions (US\$ millions)	Three months ended		Six months ended	
	30-Jun 2007	30-Jun 2006	30-Jun 2007	30-Jun 2006
Sales to Addax B.V.				
Nigeria	107	356	291	530
Gabon	32	--	75	--
Charges to Addax B.V. and other related entities				
Nigeria	9	13	20	15
<b>Total</b>	<b>130</b>	<b>343</b>	<b>346</b>	<b>515</b>

All transactions with related parties are as set out in the individual agreements that are regularly reviewed by Addax Petroleum's management.

### Crude Oil Supply Agreements

Addax B.V. ("ABV"), which is a subsidiary of AOG, is the sole marketer of Addax Petroleum's crude oil production under the Crude Oil Supply Agreements for the Nigerian crudes and Remboué and Etame, Gabon. All crude oil produced from OML123/124 and OML126 is sold to ABV on the same terms and conditions as with ABV's non-related customers. Crude oil from the Remboué field (acquired as part of the PanAfrican acquisition) is also sold to ABV. This is a continuation of trading prior to the PanAfrican acquisition and is on a non-related customer basis. ABV was awarded the contract to market the Etame crude oil for 2007 following a bidding process with a number of crude traders.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of quarterly results for Addax Petroleum for the eight most recently completed quarters.

Quarterly Information (US\$ million, unless otherwise stated)	Quarter Ended							
	30-Jun 2007	Mar-31 2007	Dec-31	Sep-30 2006	Jun-30 2006	Mar-31 2006	Dec-31 2005	Sep-30 2005
<b>Financial:</b>								
Petroleum sales before royalties	753	627	528	584	523	394	379	386
Net income	101	79	53	75	58	57	38	86
Earnings per share (US\$/basic share)	0.65	0.51	0.34	0.51	0.41	0.44	0.33	0.73
Funds Flow From Operations	287	263	216	245	196	174	146	163
FFFO per share (US\$/basic share)	1.85	1.70	1.39	1.65	1.40	1.36	1.25	1.40
Weighted average number of shares outstanding (millions)	155	155	155	148	140	128	117	117
Capital expenditures, net of dispositions	261	216	410	214	229	246	105	117
<b>Operational:</b>								
Average working interest gross oil production (mbbls/day):								
Nigeria	104.1	97.9	95.7	89.1	79.9	80.4	74.8	74.2
Gabon	18.9	18.2	12.4	2.4	--	--	--	--
Total	123.0	116.1	108.1	91.0	79.9	80.4	74.8	74.2

The general upward trend over the quarters of increasing sales has resulted from a combination of increased production from OML126, which commenced production in Q2 2005 and the acquisition of the Gabon assets in Q3 2006. These operations have also contributed to the growth in net income, but are partially offset by increased operating costs, DD&A and taxes corresponding with the increased volumes.

### Petroleum Sales

The volume of crude oil sold by Addax Petroleum per fiscal quarter in 2006 and 2007 was 6.6 MMbbls, 7.7 MMbbls, 8.7 MMbbls, 9.2 MMbbls, 10.8 MMbbls and 11.0 MMbbls respectively.

### Net Income

Net incomes by fiscal quarter for 2006 to Q2 2007 were \$57 million, \$58 million, \$75 million, \$53 million, \$79 million and \$101 million respectively. The reduction in Q4 2006 net income was due to a combination of factors; a reduction in petroleum sales, lower crude oil prices, year-end bonus awards and increased depletion costs. The Q2 2007 result of higher net income was due primarily to higher average sales price.

### Funds Flow From Operations

FFFO by fiscal quarter for 2006 to Q2 2007 were \$174 million, \$196 million, \$245 million, \$216 million, \$263 million and \$287 million respectively. The steady increase in FFFO over the first three quarters is due primarily to an increase in petroleum sales; the decrease in Q4 reflects lower net income which, as noted above, increased in Q2 2007, due primarily to higher revenue and the issuance of the convertible bond.

### Capital Expenditures

Capital expenditures have steadily increased with a significant rise in Q4 2006 due development & exploration of \$163 million and acquisition fees for OPL291 of \$68 million. The Q2 2007 expenditure level has returned to be consistent with former quarters of which 46% relates to Nigerian OML123/124, 21% to OML126/OML137, 16% to Gabon licenses and 13% to Taq Taq.