



Addax Petroleum Corporation

Management's Discussion and Analysis

For the three and six months ended June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
(amounts presented are in United States dollars unless otherwise indicated)

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

On February 16, 2006 Addax Petroleum Corporation completed its initial public offering of 21 million common shares and on February 24, 2006 it completed the issuance of an additional 2.1 million common shares upon the exercise of an over-allotment option granted to the underwriters by Addax Petroleum Corporation in connection with the IPO.

The aggregate gross proceeds from the issuance of common shares pursuant to the IPO and exercise of the over-allotment option was CDN\$ 450,450,000. Prior to the completion of the IPO, Addax Petroleum Corporation acquired all of the issued and outstanding common shares of Addax Petroleum N.V. from Addax Mining Holdings BV for cash consideration of CDN\$ 55,575,000 and 117,000,000 common shares of Addax Petroleum Corporation. As AOG controls both Addax Petroleum Corporation and Addax Petroleum N.V., the transaction occurred between entities under common control and was accounted in the books of Addax Petroleum Corporation as a continuity of interests. Under this form of purchase accounting, Addax Petroleum Corporation is deemed to have acquired Addax Petroleum N.V. at book value. Subsequent to the acquisition, Addax Petroleum Corporation's financial statements, presented for comparative purposes, reflect the financial position, results of operations and cash flows as if Addax Petroleum Corporation and Addax Petroleum N.V. had been combined since the inception of Addax Petroleum N.V.

Additional information relating to Addax Petroleum Corporation can be found on SEDAR at www.sedar.com.

The following Management's Discussion and Analysis of Addax Petroleum Corporation (the "Corporation") should be read in conjunction with the Corporation's interim consolidated financial statements as at June 30, 2006 and for the three and six month periods ended June 30, 2006 and 2005 together with the notes thereto and the consolidated financial statements of Addax Petroleum N.V. as at and for the year ended December 31, 2005 together with the notes thereto and related Management's Discussion and Analysis. The consolidated financial statements presented herein are those of Addax Petroleum Corporation and its subsidiaries.

Certain statements in this report constitute forward-looking statements under applicable securities legislation. Such statements are generally identifiable by the terminology used, such as "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 the Corporation 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; fluctuation 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 the Corporation. More specifically, production may be affected by such factors as exploration success, startup 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 the Corporation 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 quarterly report is made as of the date of this report and, except as required by applicable law, the Corporation 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.

The Corporation defines "Cash Flow From Operations" or "CFFO" as net cash from operating activities before changes in non-cash working capital. CFFO is not a recognized measure under Canadian GAAP. Management believes that in addition to net income, CFFO is a useful measure as it demonstrates the Corporation's ability to generate the cash necessary to repay debt or fund future growth through capital investment. Readers are cautioned, however, that this measure should not be construed as an alternative to net income 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.

For the purpose of the following discussion and analysis, figures expressed on a per barrel basis are derived using sales volumes rather than production.

117,000,000 shares of APC were given to AOG for APC to acquire Addax Petroleum N.V. Therefore for calculating earnings per share, it is assumed that, prior to the Initial Public Offering on February 2006, there were 117,000,000 shares of APC held by AOG.

There are no diluted shares and there are no off balance sheet transactions.

Except as otherwise indicated, certain defined words and terms used herein have the meaning set forth in the Corporation's Annual Information Form dated March 28, 2006.

This MD&A is dated August 1, 2006.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids

Bbls	Barrels
bbls/d	barrels per day
mbbls	thousands of barrels
mmbbls ..	millions of barrels
mbbls/d ..	thousands of barrels per day
mmbbls/d	millions of barrels per day
boe/d	barrels of oil equivalent per day
Mboe/d...	thousands of barrels of oil equivalent per day

Natural Gas

mcf	thousand cubic feet
mmcf	Million cubic feet
bcf	billion cubic feet
tcf	trillion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf/d	billion cubic feet per day

Currency

\$	United States dollars
CDN\$	Canadian dollars
N	Nigerian naira
CHF	Swiss francs

SUMMARY

The Corporation's sales figures are reported gross of royalties and NNPC's share of Profit Oil and exclude any volumes held as inventory at the end of the period. Inventory held at the beginning of period is included in sales during the period together with the related costs.

The Corporation currently produces and sells crude oil from 3 streams in Nigeria; Antan (OML123), Brass (OML124) and Okwori (OPL90). The document will refer to OML123, OML124 and OPL90.

During the quarter ended June 30, 2006, the Corporation brought 3 new wells on-stream (4 wells in the first quarter of 2006). These wells were in both OML123 and OPL90. Total average daily production for the six months ended June 30, 2006 amounted to 80,132 bbls/d in comparison to 55,860 bbls/d during the same period in 2005.

The Corporation's total crude oil production for the six month period ended June 30, 2006 was 9.3 mmbbls from OML123, 0.6 mmbbls from OML124, and 4.6 mmbbls from OPL90, as compared with 8.1 mmbbls from OML123, 0.6 mmbbls from OML124 and 1.4 mmbbls from OPL90 for the same period in 2005.

In March 2006, APC entered into three Production Sharing Contracts ("PSC's") with the Joint Development Authority (JDA). The JDA administers the Joint Development Zone (JDZ) between Nigeria and Sao Tome Principe. The three blocks awarded were JDZ 4 (APC as operator with a share of 33.3%), JDZ 3 (APC non-operated share of 15%) and JDZ 2 (APC non-operated share of 14.33%). During the second quarter, the Corporation purchased a further 5% of JDZ 4 to increase its share in this block to 38.3%.

In June 2006, the Nigerian government approved a 40% assignment of the Okwok property to the Corporation. Okwok lies directly to the south of OML123.

Net income increased to \$114.4 million for the six month period ended June 30, 2006 from \$82.4 million for the same period in 2005.

Net income in the second quarter of 2006 includes a stock based compensation award of \$12.6 million for 1,000,000 shares which have been awarded by AOG to current employees and directors of the Corporation for past and future service. Once accepted by the employees, the shares will vest over a three year period. Some of the shares vest immediately. As required by GAAP, the Corporation has recorded the award based on the fair value of the vested shares at grant date and will amortize the remaining share awards over the two year vesting period.

RESULTS OF OPERATIONS

	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
REVENUE					
Petroleum sales	522.4	394.2	257.8	916.6	454.9
Royalties	(90.0)	(73.3)	(39.6)	(163.3)	(77.9)
Net sales	432.4	320.9	218.2	753.3	377.0
Other income	2.3	1.2	0.3	3.5	0.9
Total net revenue	434.7	322.1	218.5	756.8	377.9
EXPENSES					
Operating	53.9	47.3	39.7	101.2	64.8
General and administrative	5.5	3.3	2.5	8.8	4.0
Preacquisition costs	4.4	11.9	1.3	16.3	2.5
Share based compensation	12.6	0.0	0.0	12.6	0.0
Other (1)	(0.5)	0.9	1.7	0.4	1.8
Depletion, depreciation and accretion	64.8	57.4	36.8	122.2	57.8
Total expenses	140.7	120.8	82.0	261.5	130.9
Income before provision for income taxes	294.0	201.3	136.5	495.3	247.0
Provision for income taxes					
Current	(175.9)	(84.1)	(74.9)	(260.0)	(149.5)
Future	(60.2)	(60.7)	(8.1)	(120.9)	(15.1)
Net income	57.9	56.5	53.5	114.4	82.4

	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
	(\$/bbl)	(\$/bbl)	(\$/bbl)	(\$/bbl)	(\$/bbl)
REVENUE					
Petroleum sales	67.9	59.4	48.2	63.9	46.5
Royalties	(11.7)	(11.0)	(7.4)	(11.4)	(8.0)
Net sales	56.2	48.4	40.8	52.5	38.5
Other income	0.3	0.2	0.0	0.2	0.0
Total net revenue	56.5	48.6	40.8	52.7	38.5
EXPENSES					
Operating	7.0	7.1	7.4	7.1	6.6
General and administrative	0.7	0.5	0.5	0.6	0.4
Preacquisition costs	0.6	1.8	0.2	1.1	0.3
Share based compensation	1.6	0.0	0.0	0.9	0.0
Other (1)	(0.1)	0.1	0.3	0.0	0.2
Depletion, depreciation and accretion	8.4	8.7	6.9	8.5	5.9
Total expenses	18.2	18.2	15.3	18.2	13.4
Income before provision for income taxes	38.3	30.4	25.5	34.5	25.1
Provision for income taxes					
Current	(22.8)	(12.7)	(14.0)	(18.1)	(15.3)
Future	(7.8)	(9.1)	(1.5)	(8.4)	(1.5)
Net income	7.7	8.6	10.0	8.0	8.3

Notes:

(1) Other includes interest on long term debt, other interest and finance charges and foreign exchange losses (gains).

(2) Figures expressed on a per barrel basis are derived using sales volumes rather than production volumes, and adjusted for overlifts.

SELECTED FINANCIAL INFORMATION FINANCIAL HIGHLIGHTS

	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30 2006</u>	<u>Mar.31 2006</u>	<u>Jun.30 2005</u>	<u>Jun.30 2006</u>	<u>Jun.30 2005</u>
Revenue, before Royalties (million)	522.4	394.2	257.8	916.6	454.9
Net Income (million)	57.9	56.5	53.5	114.4	82.4
Per common share (\$)	0.41	0.44	0.46	0.85	0.70
Cash Flow from Operations (million)	195.7	174.3	89.1	370.0	159.0
Per common share (\$)	1.40	1.36	0.76	2.76	1.36
Capex, net of dispositions (million)	229.2	245.5	69.4	474.7	159.1
<i>Net Income / Revenue</i>	<i>11.1%</i>	<i>14.3%</i>	<i>20.7%</i>	<i>12.5%</i>	<i>18.1%</i>

Note:

- 2006 per share amounts for quarters 1 and 2 of 2006 are calculated on a basis of 127,850,100 and 140,100,100 Common Shares, respectively, and for the six months ended June 30, 2006, per share amounts are calculated on the basis of 134,008,940 common shares of Addax Petroleum Corporation.

- 2005 per share amounts are calculated on the basis of 117,000,000 Common Shares of Addax Petroleum N.V.

For the six months ended June 30, 2006, the Corporation recorded a net income of \$114.4 million compared to a net income of \$82.4 million for the same period in 2005. For the second quarter of 2006, the Corporation reported net income of \$57.9 million compared to net income of \$53.5 million in the second quarter of 2005.

Cash Flow From Operations for the six months ended June 30, 2006 increased by 133% to \$370.0 million from \$159.0 million for the comparable period in 2005. Cash flow from operations for the second quarter of 2006 increased to \$195.7 million, up 120% from \$89.1 million for the second quarter of 2005 and up 12% from \$174.3 million in the first quarter of 2006.

The major reasons for the increase in revenue and cash flow from operations for the period ended June 30, 2006 were the increased oil prices, and increased production from OPL90 and OML123. These increases were partly offset by increases in taxes, royalties, operating expenses, general and administrative expenses, depletion and other expenses.

SELECTED OPERATING INFORMATION OPERATING HIGHLIGHTS

(\$/bbl) except daily production and sales in number of barrels	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
Daily production	79,892	80,374	62,307	80,132	55,860
Daily sales (1)	84,607	73,713	58,736	79,190	54,006
Sales price (2)	67.85	59.41	48.23	63.95	46.53
Royalties	(11.69)	(11.04)	(7.40)	(11.39)	(7.97)
Operating expenses	(6.99)	(7.13)	(7.40)	(7.05)	(6.62)
Netback	49.17	41.24	33.43	45.51	31.94

(1) Including any overlift adjustment

(2) Total petroleum sales (overlift included) divided by the number of barrels sold (overlift included)

The volume of daily sales has increased significantly in the six month period ended June 30, 2006 compared to the same period for 2005. The 2006 daily sales volumes for the period ended June 30, 2006 amounted to 79,190 bbls/d compared to 54,006 bbls/day for the same period in 2005. Daily sales volumes for the quarter ended June 30, 2006 were 84,607 bbls/day compared to 73,713 bbls/d for the first quarter of 2006 and 58,736 bbls/d for the second quarter of 2005. This increase is mainly due to the production from OPL90 for which the first lifting occurred in June 2005, and from OML123 due to additional development wells being brought into production.

The average sales price increased 37% to average \$63.95 per bbl for the six months ended June 30, 2006 up from \$46.53 per bbl for the same period in 2005, and increased 41% to average \$67.85 per bbl in the second quarter of 2006, up from \$48.23 per bbl for the same period of 2005. The increase between the six month periods is due to the increase in the Dated Brent Benchmark Price which increased by 33%.

Royalties per barrel have increased by 43% for the six months ended June 30, 2006 compared to the same period for 2005 and have increased 58% in the second quarter of 2006 compared to the same period for 2005. The increase is due to higher revenues.

Operating expenses per barrel have increased by 7% for the six months ended June 30, 2006 compared to the same period for 2005. This is primarily due to upward cost pressure from high demand for oil services.

As a result, the netback has increased by 43% from \$31.94 per barrel for the six months ended June 30, 2005 to \$45.51 per barrel for the same period in 2006.

PRODUCTION

OML123-124	Three Months Ended			Six Months Ended	
	Jun.30 2006	Mar.31 2006	Jun.30 2005	Jun.30 2006	Jun.30 2005
Production (mdbl)	5'060	4'834	4'394	9'894	8'759
Daily Production (bbl)	55'602	53'715	48'288	54'663	48'391
Royalties (mdbl)	(1'186)	(920)	(745)	(1'933)	(1'601)
Daily Royalties (bbl)	(13'038)	(10'224)	(8'182)	(10'678)	(8'844)
Daily Production Net of Royalties (bbl)	42'564	43'491	40'106	43'985	39'547

OPL90	Three Months Ended			Six Months Ended	
	Jun.30 2006	Mar.31 2006	Jun.30 2005	Jun.30 2006	Jun.30 2005
Production (mdbl)	2'210	2'399	1'276	4'610	1'352
Daily Production (bbl)	24'290	26'659	14'020	25'468	7'468
Royalties (mdbl)	(321)	(322)	(66)	(667)	(66)
Daily Royalties (bbl)	(3'533)	(3'574)	(724)	(3'687)	(364)
Daily Production Net of Royalties (bbl)	20'757	23'085	13'296	21'781	7'104

The daily production has increased by 43% to 80,131 bbls/d for the six months ended June 30, 2006 from 55,859 bbls/d for the comparable period in 2005. The increase in production is mainly due to the Corporation's extensive capital investment in 2006 which has resulted in record levels of production.

In OML123, the daily production has increased by 14% from 44,930 bbls/d for the six months ended June 30, 2005 to 51,136 bbls/d for the six months ended June 30, 2006. 2006 second quarter production increased by 7,019 bbls/d or 15% compared to the second quarter of 2005. Five new production wells have been added to this block in the six month period ended June 30, 2006 (2 wells added in Q2 2006).

In OML124, the daily production has increased by 2% from 3,461 bbls/d for the six months ended June 30, 2005 to 3,527 bbls/d for the same period in 2006. Q2 2006 daily production increased 8% or 288 bbls/d compared to Q2 2005 production.

OPL90 commenced production in the first quarter of 2005, and has an average production for the six months ended June 30, 2006 of 25,468 bbls/d compared to 7,468 bbls/d for the same period of 2005. Q2 2006 production totalled 24,290 bbls/d compared to 14,020 bbls/d for the same period in 2005. As at June 30, 2006, 8 wells were producing (June 30 2005: 4 wells). One new production well has been added to this block at the end of Q2 2006. The reduction of 2,369 bbl/d to 24,290 bbls/d in the second quarter of 2006 from 26,659 bbls/d in the first quarter of 2006 was due to a shut-in on the FPSO in the second quarter when four mini-manifolds were lifted and installed onto the FPSO.

The production split has changed with the continuing increase in production in OPL90. For the six month period ended June 30, 2005, the number of barrels produced in OML123

accounted for 81% of the total barrels produced, the other 19% being from OML124 (7%) and OPL90 (12%). For the six month period ended June 30, 2006, barrels of production progressed as follows: OML123 accounted for 64%; OML124 accounted for 5%; and OPL90 accounted for 31% of the total production.

CRUDE OIL PRICES

The selling price for each area is based on the Dated Brent Benchmark Price plus a premium or a discount which depends on the quality of the crude oil.

(\$/barrel)	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
Average Dated Brent Benchmark Price	69.62	61.75	51.59	65.69	49.55
OML123					
Average Discount	(3.16)	(4.90)	(3.97)	(3.97)	(4.29)
Average Price	66.09	57.14	47.52	62.10	45.14
% of total lifting	62.49%	64.03%	76.21%	63.20%	83.94%
OML124					
Average Premium	1.32	0.90	0.18	1.18	0.16
Average Price	71.33	62.81	51.51	68.56	50.33
% of total lifting	4.42%	2.80%	6.16%	3.67%	6.41%
OPL90					
Average Premium	0.87	1.91	2.47	1.14	2.47
Average Price	70.16	63.56	56.88	67.02	56.88
% of total lifting	33.09%	33.17%	17.63%	33.13%	9.65%

Note:

Premium/(Discount) to Brent Crude are reported on a volume weighted basis for both the crude in question and Brent Crude, whereas Dated Brent Crude prices are reported as averages of monthly values for the period. Accordingly, the difference between the reported average realized petroleum prices and Dated Brent Crude prices may not correspond to the Premium/(Discount) to Brent Crude.

Geopolitical issues, continued demand and refinery constraints have seen oil prices continue to rise in 2006. The average dated Brent Benchmark Price has increased to an average price of \$65.69 per barrel for the six months ended June 30, 2006 from an average price of \$49.55 per barrel in the comparable period in 2005 up \$16.14/bbl or 33% on the same period a year ago.

The crude oil lifted from OML123 was sold with an average discount of \$3.97 per barrel for the six months ended June 30, 2006 (\$4.29 per barrel in the six months ended June 30, 2005) against the weighted average dated Brent benchmark price. This accounts for an average discount of 6% in comparison to Brent. Q2 2006 sales averaged a discount of \$3.16 or 5% compared to \$3.97 or 8% for the same period in 2005.

The average premium applied on the crude oil lifted from OML124 is \$1.18 per barrel in the six months ended June 30, 2006 in comparison to \$0.16 per barrel in the six months ended June 30, 2005. For the second quarter of 2006, there was an average premium on crude oil lifted from OML124 of \$1.32 compared to \$0.18 premium for the same period in 2005.

The average premium per barrel applied on the crude oil lifted from OPL90 for the six months ended June 30, 2006 is \$1.14 (\$2.47 in 2005). The average price is \$67.02 (\$56.88 in 2005). 33% of the barrels lifted in six months ended June 2006 were from OPL90 compared to 10% for the same period in 2005. The average premium applied on crude lifted from OPL90 for the second quarter of 2006 is \$0.87 (\$2.47 in 2005) whilst the average price is \$70.16 (\$56.88 in 2005).

PETROLEUM SALES

Petroleum sales are reported on the basis of production volumes sold gross of Royalties and NNPC's share of Profit Oil and exclude any volumes held as inventory at the end of the period. Any overlifts are accounted for as deferred income in the balance sheet.

The table below summarises the Petroleum Sales.

Petroleum sales in \$ million	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
OML123	319.9	242.7	187.6	562.6	370.4
OML124	24.2	11.6	16.5	35.8	30.8
OPL90	178.3	139.9	53.7	318.2	53.7
TOTAL SALES	522.4	394.2	257.8	916.6	454.9

The petroleum sales have increased by 101% for the six month period ended June 30, 2006 in comparison to the same period in 2005. Petroleum sales in the second quarter of 2006 rose 103% compared to the second quarter of 2005. Petroleum sales include liftings from OML123, OML124 and OPL90 (OPL90 liftings began in the second quarter of 2005).

Petroleum sales from OML123 for the six month period ended June 30, 2006 account for 61% of the total (81% for the same period in 2005). Petroleum sales from OML124 account for 4% of the total (7% in 2005). Petroleum sales from OPL90 account for 35% (12 % in 2005) of total of revenue. Q2 2006 sales for OML123 account for 61% of total petroleum sales (73% in 2005); for OML124 5% of total petroleum sales (6% in 2005); and for OPL90 34% of total petroleum sales (21% in 2005).

The increase in petroleum sales in OML123 (52% between the six months ended June 30, 2006 and same period for 2005) from \$370.4 million to \$562.5 million is due mostly to the increase in market prices. The impact of the increase in price is \$153.6 million whereas the impact of the increase in production is \$38.5 million.

In OML124, the increase in petroleum sales by 16% from \$30.8 million to \$35.8 million is due to the increase in the sales price. The impact of the increase in price is \$9.6 million whereas the impact of the decrease in production is \$4.6 million.

In OPL90, the first liftings occurred in June 2005. The revenue of \$318.2 million is mostly generated by this new production.

ECONOMIC SENSITIVITIES

The following table shows the estimated after-tax effect that changes to crude oil prices, crude oil production and operating costs would have had on the Corporation's net income for the six months ended June 30, 2006, had these changes occurred on January 1, 2006. These calculations are based on business conditions, production and sales volumes existing for Q2 2006. The 1,000 bbls/d increase has been allocated equally between OML123/OML124 and OPL90.

<u>Factor</u>	<u>Change (+)</u>	<u>Net Income Impact</u> (\$million)	<u>Net Income Impact</u> (\$/share)
Price received for crude oil	\$1.00/bbl	2.8	0.02
Crude oil production	1,000 bbls/d	2.9	0.02
Increase in operating costs	10%	(2.4)	(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 consider the relationships between the above factors.

ROYALTIES

Royalties are comprised of NNPC Profit Oil, Education Tax, Royalty Oil, Niger Delta Development Corporation (NDDC) levy and the Cost Penalty Arrangement (CPA). Royalties are determined in accordance with the applicable PSC.

OML123-OML124	Three Months Ended			Six Months Ended	
	Jun.30	Mar.31	Jun.30	Jun.30	Jun.30
	2006	2006	2005	2006	2005
\$million					
Royalty Oil	24.2	17.7	14.8	41.9	31.6
NDDC Levy	2.9	3.5	1.7	6.4	3.4
Education Tax	4.9	3.1	2.8	8.0	5.6
NNPC's share of profit oil	33.8	24.9	16.6	58.7	33.6
Cost Penalty Arrangement	2.6	3.8	0.0	6.4	0.0
Total	68.4	53.0	35.9	121.4	74.2

OPL90	Three Months Ended			Six Months Ended	
	Jun.30	Mar.31	Jun.30	Jun.30	Jun.30
	2006	2006	2005	2006	2005
\$million					
Royalty Oil	7.9	6.2	1.7	14.1	1.7
NDDC Levy	2.9	3.1	2.0	6.0	2.0
Education Tax	2.0	1.6	0.0	3.6	0.0
NNPC's share of profit oil	8.8	9.4	0.0	18.2	0.0
Cost Penalty Arrangement	0.0	0.0	0.0	0.0	0.0
Total	21.6	20.3	3.7	41.9	3.7

Total	Three Months Ended			Six Months Ended	
	Jun.30	Mar.31	Jun.30	Jun.30	Jun.30
	2006	2006	2005	2006	2005
\$million					
Royalty Oil	32.1	23.9	16.5	56.0	33.3
NDDC Levy	5.8	6.6	3.7	12.4	5.4
Education Tax	6.9	4.7	2.8	11.6	5.6
NNPC's share of profit oil	42.6	34.3	16.6	76.9	33.6
Cost Penalty Arrangement	2.6	3.8	0.0	6.4	0.0
Total Royalties	90.0	73.3	39.6	163.3	77.9

Total	Three Months Ended			Six Months Ended	
	Jun.30	Mar.31	Jun.30	Jun.30	Jun.30
	2006	2006	2005	2006	2005
\$/bbl					
Royalty Oil	4.17	3.60	3.08	3.91	3.41
NDDC Levy	0.75	1.00	0.69	0.87	0.55
Education Tax	0.90	0.71	0.52	0.81	0.57
NNPC's share of profit oil	5.53	5.17	3.11	5.37	3.44
Cost Penalty Arrangement	0.34	0.57	0.00	0.45	0.00
Total Royalties	11.69	11.05	7.40	11.41	7.97

Royalties for crude oil lifted from OML 123 and OML 124 for the three and six months ended June 30, 2006 increased from comparable periods in 2005 primarily due to higher benchmark prices and a significant increase in production.

Royalties for crude oil lifted from OML123 and OML124 have increased by 64% from \$74.2 million (\$7.59 per barrel) to \$121.4 million (\$8.47 per barrel). The Royalties for crude oil

lifted from OPL90 are \$41.9 million (\$2.94 per barrel) compared to \$3.7 million in the quarter ended June 30, 2005.

Royalty Oil from OML123 and OML124 increased by 33% from \$31.6 million (\$3.23 per barrel) in the quarter ended June 30, 2005 to \$41.9 million (\$2.92 per barrel) in the quarter ended June 30, 2006. Royalty Oil is levied on petroleum sales, with the percentage of Royalty Oil increasing with production. Royalty Oil has increased due to a combination of increased production and higher benchmark crude oil prices in Q2 2006 compared to Q2 2005. OPL90 Royalty Oil for the six months ended June 30, 2006 is \$14.1 million (\$0.98 per barrel) compared to \$1.7 million in the six months ended June 30, 2005.

Profit Oil in OML123/124 is up 75% from \$33.6 million in the second quarter of 2005 (\$3.44 per barrel) to \$58.7 million (\$4.06 per barrel) in the same period of 2006. The increase is due to the increase of 69% in revenues in OML123 and OML124. Profit Oil in OPL90 for the six months ended June 30, 2006 amounted to \$18.2 million compared to nil the same period in 2005. In the second quarter of 2005, OPL90 enjoyed significant tax deductions, resulting in nil profit oil.

OPERATING EXPENSES

The operating expenses presented below include costs relating to OML123/124 and to OPL90.

Operating Expenses in \$ million	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
OML123/124	36.9	35.7	31.1	72.6	56.2
OPL90	17.0	11.6	8.6	28.6	8.6
Total Producing Assets	53.9	47.3	39.7	101.2	64.8
\$/bbl lifted	6.99	7.13	7.33	7.05	6.57
\$/bbl lifted in OML 123-124	7.17	8.05	7.07	7.58	6.36
\$/bbl lifted in OPL90	6.64	5.26	8.56	6.00	8.56

There is a continuing upward pressure on operating costs due to high demand for oil services. The Corporation continues to mitigate this upward pressure through a number of methods such as using competitive bidding procedures and awarding long term contracts, but with crude oil continuing at its historic highs, continual upward cost pressure is expected.

Operating costs for the three and six months ended June 30, 2006 increased from the comparable periods in 2005. The increase is principally due to the coming on stream of OPL90, to one off employee payments made for OML123/124 and to higher service costs resulting from the increase in industry wide activity in reaction to higher crude oil prices.

The operating costs in OML123/124 have increased by 29% (\$16.4 million) from \$56.2 million to \$72.6 million and from \$6.57 per barrel in the six months ended June 30, 2005 to \$7.05 per barrel in the same period of 2006.

For OML123/124, the increase in operating costs for the six months to June 30, 2006 compared to the same period in 2005 is mainly due to a \$4.5 million increase relating to a special bonus and allowances paid to the Nigerian staff following union negotiations, an increase in vessel costs of \$7.1 million including a settlement of a contract relating to the period from April 2004 to March 2006 (increase of \$3.6 million), and an increase in FPSO costs of \$2.5 million.

For OPL90, total operating costs for the six months ended June 30, 2006 were \$28.6 million which mainly relates to costs related to the floating production storage and offloading vessel ("FPSO") (\$18.4 million). The increase in operating costs for Q2 2006 compared to Q1 2006 were due to an increase in FPSO costs of \$3.4 million including \$2.0 million of agreed variation orders relating to the modification of the FPSO, and a \$0.4 million increase in chartered ships and helicopters.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative charges relate to corporate costs.

\$million except per bbl amounts	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
Corporate costs (million)	5.5	3.3	2.5	8.8	4.0
Corporate costs (per barrel)	0.76	0.50	0.44	0.61	0.40

Corporate costs have increased by 120% to \$8.8 million in the quarter ended June 30, 2006 compared from \$4.0 million in the quarter ended June 30, 2005. The main reason for the increase is additional employees resulting from expansion activities within the commercial and finance departments in the Geneva office working specifically on corporate activities.

PRE-ACQUISITION EXPENSES

Included in pre-acquisition expenses are costs related to the Corporation's New Venture activity. Related expenditures are charged to the income statement pending finalization of the Corporation's rights to a license. These costs can include seismic purchases, studies (in house and external) and consulting.

\$million except per bbl amounts	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
Taq Taq Operating Costs	0.6	7.7	0.0	8.3	0.0
New Venture Costs - Nigeria	1.7	2.6	0.0	4.3	0.0
New Venture Costs - Other	2.1	1.6	1.3	3.7	2.5
Total Pre-acquisition costs	4.4	11.9	1.3	16.3	2.5

The reason for the increase from June 30, 2005 to June 30, 2006 is due to the Corporation aggressively seeking new opportunities in its core areas.

Total Taq Taq costs incurred in the six months period ended June 30, 2006 totalled \$8.3 million. This mainly comprises the field set up and support costs, together with final 2D seismic expenditure. From the second quarter of 2006, the capital costs relating to Taq Taq have been capitalized. Prior to this they have been expensed. There are a small amount of operating expenses which have been charged to pre-acquisition expenses as no revenue is generated from Taq Taq.

The New Venture costs have increased by \$1.2 million from \$2.5 million in the six months ended June 30, 2005 to \$3.7 million in the six months ended June 30, 2006. The Corporation is continuing to increase its new venture activity in 2006, including the establishment of a New Ventures – Nigeria department.

Nigeria New Venture costs decreased from \$2.6 million in Q1 to \$1.7 million in Q2 2006 due to a successful acquisition in Q2 of Okwok. Costs relating to this project in Q2 have thus been capitalized whereas in Q1 \$0.8 million in relation to it was expensed.

SHARE-BASED COMPENSATION

Share-based compensation relates to share awards to employees and directors of the Corporation. These awards can be granted immediately or over a three year period.

	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	Jun.30 2006	Mar.31 2006	Jun.30 2005	Jun.30 2006	Jun.30 2005
\$million except per bbl amounts					
Share based compensation (million)	12.6	0.0	0.0	12.6	0.0
Share (earnings per share)	0.09	0.0	0.0	0.09	0.0

AOG has awarded 1,000,000 common shares of the Corporation to current employees and directors during the second quarter of the year. The grant date of the shares was June 30, 2006. The shares vest as follows: 468,700 shares immediately; 265,650 shares on January 31, 2007; and 265,650 shares on January 31, 2008. The fair value of the common shares granted of \$26,852,702 is expensed over the vesting period. The earnings per share of this award is \$0.09 per share.

OTHER

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.

(\$ million)	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	Jun.30 2006	Mar.31 2006	Jun.30 2005	Jun.30 2006	Jun.30 2005
Long term debt	0.0	0.0	83.8	0.0	183.8
Interest	0.6	1.2	0.2	1.8	0.2
Other finance charge	0.2	0.1	0.0	0.3	0.1
Foreign Exchange (Gain)/Loss	(1.3)	(0.4)	1.5	(1.7)	1.5
Other Income	(2.3)	(1.2)	(0.3)	(3.5)	(0.9)
Total	(2.8)	(0.3)	1.4	(3.1)	1.0

Other income has increased from \$0.9 million in the six months ended June 30, 2005 to \$3.5 million for the same period in 2006. The increase is mainly related to an increase in interest income, which totalled \$1.8 million for the six months ended June 30, 2006 mostly generated from cash received from the Initial Public Offering completed in February 2006.

The Corporation 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. Currently the Corporation holds a foreign exchange forward contract to manage its exposure to foreign currency risk with respect to the Swiss franc against the US dollar. There are no liquidity risks associated with this instrument. Gains or losses on foreign exchange forward contracts are included in other interest and finance charges. The Corporation has no immediate plans to put in place other hedges or financial instruments.

DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

(\$ million)	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	Jun.30 2006	Mar.31 2006	Jun.30 2005	Jun.30 2006	Jun.30 2005
Nigeria	64.0	56.6	35.7	120.7	56.3
Corporate	0.2	0.2	0.3	0.4	0.5
	64.2	56.8	36.0	121.1	56.8
Unwinding	0.6	0.6	0.8	1.1	1.0
Total depletion	64.8	57.4	36.8	122.2	57.8

The costs of oil and natural gas properties are depleted on a unit-of-production basis, based on the Corporation's share of gross estimated proved reserves. The proved reserves utilized to compute DD&A for the quarter were based on the internal estimate of proved reserves at December 2005 and adjusted for any additions or deletions. The Corporation used a proved reserve estimate of 121.3 million barrels as at June 30, 2006. The proved reserve figure used in calculating DD&A includes upward adjustments of 22.9mmbbls compared to the reserve base as at December 31, 2005 due to increases in proved reserves in Okwori, Nda, Adanga North, Adanga South and North Oron during the first 2 quarters of 2006.

The increase in DD&A from \$56.8 million in the six month period ended June 30, 2005 to \$121.1 million for the same period of 2006 is mainly due to the inclusion of approximately \$37.9 million of OPL90 DD&A for the six month period ended June 30, 2006 (\$19.7 for the same period of 2006), and the increase in OML123 production.

CURRENT INCOME TAXES

(\$ million)	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	Jun.30	Mar.31	Jun.30	Jun.30	Jun.30
	2006	2006	2005	2006	2005
OML123/124	131.2	76.7	74.5	207.8	148.9
OPL90	44.6	7.3	0.0	52.0	0.0
Other	0.1	0.1	0.4	0.2	0.6
Current Income Taxes	175.9	84.1	74.9	260.0	149.5

Current income taxes have increased by \$110.5 million (74%) from \$149.5 million in the six months ended June 30, 2005 to \$260.0 million in the six months ended June 30, 2006.

The overall increase in taxes in OML 123/124 is a result of the increase in revenues during the period.

Taxes for OPL 90 have increased due to restrictions on accessing capital allowances. This is due to the regulations of the Nigerian fiscal code.

In the second quarter of 2005 OPL90 enjoyed significant tax deductions, resulting in zero current tax.

The “other taxes” represent local income tax due by the Geneva Branch of Addax Petroleum Services, a subsidiary of the Corporation.

FUTURE INCOME TAXES

(\$ million)	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	Jun.30	Mar.31	Jun.30	Jun.30	Jun.30
	2006	2006	2005	2006	2005
OML123/124	10.5	12.8	8.1	23.3	15.1
OPL90	49.7	47.9	0.0	97.6	0.0
Other	0.0	0.0	0.0	0.0	0.0
Future Income Taxes	60.2	60.7	8.1	120.9	15.1

Future income taxes for OML123/124 increased by \$8.2 million (54%) to \$23.3 million in six months ended June 30, 2006 from \$15.1 million in the quarter ended June 30, 2005.

Future income taxes for OPL90 were \$97.6 million in the six months ended June 30, 2006 compared to nil in the same period of 2005. The significant increase in future income taxes for OPL90 is directly a result of the usage of tax allowances compared to the corresponding period in 2005.

CAPITAL EXPENDITURES

(\$ million)	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u> <u>2006</u>	<u>Mar.31</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>	<u>Jun.30</u> <u>2006</u>	<u>Jun.30</u> <u>2005</u>
OML123/124					
Drilling	34.2	29.2	19.5	63.4	38.3
Facilities	23.8	41.8	-1.2	65.6	4.1
Other	4.2	2.7	1.2	6.9	4.9
Sub Total	62.2	73.7	19.5	135.9	47.3
OPL90/225					
Okwori development	22.4	48.4	44.2	70.8	93.7
Nda development	49.6	32.5	4.4	82.1	5.1
Nda extended well test	0.0	-	0.0	-	8.1
Other	7.3	7.9	0.8	15.2	1.0
Sub Total	79.3	88.8	49.4	168.1	107.9
Cameroon	0.1	6.5	0.1	6.6	0.5
Gabon	0.5	0.3	0.4	0.8	0.8
JDZ Block 2	3.7	15.1	0.0	18.8	0.0
JDZ Block 3	3.4	9.5	0.0	12.9	0.0
JDZ Block 4	28.4	41.4	0.0	69.8	0.0
Okwok	39.4	0.0	0.0	39.4	0.0
Iraq - Taq Taq	11.1	0.0	0.0	11.1	0.0
Other (1)	1.1	10.2	0.0	11.3	2.6
Total	229.2	245.5	69.4	474.7	159.1

There is a continuing upward pressure on capital expenditures due to high demand for oil services especially for drilling rigs. The Corporation continues to mitigate this upward pressure such as using competitive bidding procedures bidding on long term contracts, but with crude oil continuing at its historic highs, continual upward cost pressure is expected.

Total capital expenditures have increased by 198 % from \$159.1million for the six months in 2005 to \$474.7 million for the six months in 2006 with quarter two increased by 230% from \$69.4 million in quarter two 2005 to \$229.2million in quarter two 2006. This is mainly due to new assets in three JDZ Blocks, Okwok and Taq Taq, Nda development, the OML123 FPSO replacement and the increase of the number of drilling rigs operating for the Corporation from two in 2005 to four at June 30, 2006.

For the first six months of 2006, total capital expenditures on OML123 and OML124 were \$135.9 million compared to \$47.3 million for the six months of 2005. Drilling costs were \$63.4 million which comprised \$7.5million of OML124 and \$47.6 million of OML123 appraisal and development wells. OML124 commenced drilling in quarter two 2006. There was an exploration well which was completed in quarter one 2006 for \$8.3million which was a non-commercial discovery. Facilities costs totalled \$65.6 million on OML123 and OML124, comprising \$55.5 million for the OML123 FPSO replacement, the project commencing during quarter three 2005, and \$4.7 million for Adanga North extended well test which commenced in

quarter four 2005. OML124 oil facilities expenditure was \$2.1million. Other capital expenditures on OML123 and OML124 were \$6.9 million including capitalized studies of \$3.9 million, capitalized seismic costs of \$0.4 million and \$2.6 million of office capital expenditure.

For the first six months of 2006, total capital expenditures on OPL90 and OPL225 were \$168.1 million compared to \$107.9 million for six months of 2005. Capital expenditures on OPL90 included \$82.1million for the appraisal and initial development of the Nda field, which commenced development in the third quarter 2005, and \$70.8 million for development, facilities and drilling costs on the Okwori property. The other costs of \$15.2 million are primarily capitalized seismic acquisition costs of \$8.9 million on OPL225 which commenced in the fourth quarter of 2005 and an Okporo exploration well in second quarter 2006.

Capital expenditures of \$6.6 million in Cameroon for first six months 2006 are primarily related to the acquisition of 3D seismic data which began in the fourth quarter of 2005.

Capital expenditures of \$101.5 million in the Joint Development Zone Blocks for first six months 2006 are mainly related to signature bonus payments and farm in fees for the JDZ Block 2 (\$18.8 million), Block 3 (\$12.9 million) and Block 4 (\$69.8 million).

Okwok incurred costs in the third quarter of \$39.4 million including \$35 million Farm-in fees. The Corporation farmed-in to 40% of the Okwok property, OML67 in Nigeria June 2006 but is carrying all the Capex to production. Okwok costs commenced being capitalized for the first time in the second quarter of 2006.

In Northern Iraq the Taq Taq field began appraisal drilling which, including support costs, totalled \$11.1 million in the second quarter of 2006. Addax has a Farm-in Agreement with Genel Enerji of Turkey for 30% interest in the Taq Taq field.

During the second quarter of 2006, costs relating to the Taq Taq field in northern Iraq were capitalized as the risks and rewards of ownership had been confirmed. Exploration and development activities in Iraq may be subject to economic and political considerations such as the risks of war, actions by terrorist or insurgent groups, community disturbances, expropriation, nationalization, renegotiation, forced change or nullification of existing contracts or royalty rates, unenforceability of contractual rights, adverse changes to laws (whether of general application or otherwise) or the interpretation thereof, and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Other capital expenditures mainly relate to the acquisition of a rig for the Taq Taq field in Northern Iraq for \$8.8 million in the first quarter of 2006.

Major Capital Projects

There are two major capital projects on OPL90, the Okwori field development, and the Nda field development.

For the Okwori field development, the final two wells will be completed and tied in during June and July 2006. The capital costs inception to date are \$351.2 million, and the capital costs to

complete the project are forecast at \$60 million, including the gas export line for \$35 million for flares down compliance.

The Nda field development has currently 1 test well producing. In the first quarter the Nigerian authorities gave approval for the full development of the Nda project. An appraisal well was drilled Q4 2005 and three further development wells will be drilled in 2006 and brought on stream in the third and fourth quarters of 2006.

The Nda development capital costs inception to date are \$158.4 million, and the capital costs to complete the project are forecast to be \$42 million. It is planned to drill further appraisal wells in the greater Nda area following the Nda field development project.

On OML123, the replacement FPSO work is ongoing. It is anticipated that the replacement will be completed in the third quarter of 2006. Costs from inception to the end of June 2006 are \$77.3 million, and the capital costs to complete the project are forecast at \$23 million. These costs are for subsea pipelines and risers, FPSO moorings and topsides water injection package.

Okwok, Taq Taq and the three JDZ deep water blocks are still in the appraisal and exploration stages.

Outlook

The capital expenditure forecast for 2006 is 6% less than the MD&A as of December 2005. The capital expenditure forecast for JDZ 4 is \$77.3 million, JDZ 3 is \$15.9 million, and for JDZ 2 is \$21.4 million. The costs include signature bonuses, farm-in fees and technical studies. Okwok 2006 work programme is forecast at \$68.3 million, including 2 appraisal wells, in addition to the Farm-in fee. The capital expenditure on Taq Taq is expected to be \$30 million in the second half of 2006 for a further 2 appraisal wells and production facilities.

Total capital expenditures for the first six months were \$474.7 million, and for the following two quarters are forecasted to be: for the third quarter \$240 million; and for the fourth quarter \$230 million.

Average production for 2006 is forecasted to be 85,000 barrels per day, with a production rate by year end of 100,000 barrels per day.

Proposed Transactions

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

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

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

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

The Corporation is planning to buy a production unit which is currently leased to OML123. The technical review is ongoing. Assuming a positive result from the technical and commercial review, the unit will be bought in the third quarter of 2006 for approximately \$30 million including facilities and upgrade.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Corporation's principal source of liquidity has been cash generated from operating activities which has been supplemented as necessary by credit facilities and equity funds generated from the IPO to meet increased capital expenditures, primarily for the development of the Okwori property in OPL90 and expenditure relating to the JDZ blocks and the Taq Taq field. The Corporation has not experienced seasonal variations in its cash flows. Currently, the Corporation generates all of its cash from operating activities from its Nigerian subsidiaries. Provided applicable solvency and corporate requirements are satisfied, there are no legal or practical restrictions in Nigeria on the ability of the Corporation's Nigerian subsidiaries to transfer funds to the Corporation in the form of cash dividends, loans or advances. In addition, there are no contractual restrictions on such transfers of funds to the Corporation by its Nigerian subsidiaries.

The Corporation held total cash and cash equivalents of \$333.9 million as at June 30, 2006.

On February 16, 2006, the Corporation was listed on the Toronto Stock Exchange by way of an Initial Public Offering ("IPO"). Pursuant to the IPO, the Corporation raised \$355.1 million (CDN \$409.5 million) of which:

- \$17.6 million (CDN \$20.5 million) was used to pay expenses related to the IPO;

- \$48.2 million (CDN \$55.6 million) and 117,000,000 common shares of APC were paid to acquire all of the issued and outstanding common shares of Addax Petroleum N.V., previously held by AOG.

On February 24, 2006, an over-allotment option held by the underwriters was exercised yielding net proceeds of \$33.7 million (CDN \$38.9 million) (gross proceeds totalled \$35.5 million (CDN \$41.0 million)).

Total net proceeds from the IPO, the over-allotment option and the share purchase amounted to \$322.9 million (CDN \$372.4 million). Part of the proceeds were used to pay down the Corporation's debt. The balance of the proceeds will be used to fund the Corporation's ongoing capital expenditures.

The Corporation has a senior secured revolving credit facility with BNP Paribas as Mandated Lead Arranger and Standard Bank as Lead Arranger with a borrowing base of \$300.0 million. This facility expires on December 31, 2008. The borrowing base was initially set at \$100.0 million, and is re-determined semi-annually based on NSAI's evaluation of the Corporation's oil and gas reserves, subject to the approval of the majority lenders. As at June 30, 2006, all amounts drawn on the credit facility were reimbursed. The credit facility bears interest at floating rates linked to LIBOR plus a margin determined in relation to the percentage of utilization on the first day of the interest period.

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

	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>Jun.30</u>	<u>Mar.31</u>	<u>Jun.30</u>	<u>Jun.30</u>	<u>Jun.30</u>
Net Cash inflows (outflows) before movements in working capital (\$million)	2006	2006	2005	2006	2005
Cash Flow from operations	195.7	174.3	89.1	370.0	159.0
Net cash flow used in investing activities	(225.7)	(102.4)	(69.3)	(328.1)	(159.1)
Net cash flow (used in) financing activities	0.0	192.9	88.2	192.9	121.5
Net increase in cash and cash equivalents	(30.0)	264.8	108.0	234.8	121.4
(Increase) decrease in working capital	114.6	(22.2)	(82.6)	92.4	(83.2)
Increase (decrease) in cash and cash equivalents	84.6	242.6	25.3	327.2	38.2
Cash and cash equivalents at end of period	333.9	249.2	42.1	333.9	42.1

Cash Flow From Operations

Cash flow from operations was \$370.0 million for the six month period ended June 30, 2006 compared to \$159.0 million for the same period of 2005, representing an increase of \$211.0 million. The increase resulted from the increase in income before income taxes of \$248.4 million, due to higher prices and higher production from OPL90 and OML123 compared to 2005. For the quarter ended June 30, 2006, cash flow from operations has been reduced due to the increase in current income taxes in OPL90 to \$44.6 million from \$7.3 million in the quarter ended March 31, 2006.

Net Cash Flow Used in Investing Activities

Net cash used in investing activities consists principally of the purchase of property, plant and equipment, and intangible capital expenditures. Net cash used in investing activities

was \$328.1 million for the six months ended June 30, 2006 compared to \$159.1 million for same period in 2005, representing an increase of \$169.0 million. This increase is mainly due to an increase by \$101.5 million in capital expenditures on JDZ Blocks 2, 3 and 4, and an increase of \$39.4 in capital expenditures on Okwok. The remaining increase relates to increases in capital expenditures in OML123 and OPL 90.

Net Cash From (Used in) Financing Activities

Net cash from financing activities was \$192.9 million for the six month period ended June 30, 2006 compared to a cash inflow of \$121.5 million in the same period 2005. The Corporation received \$371 million from the IPO. This cash inflow was partially offset by the following outflows: repayment of long term debt (\$80 million in Q1 2006 in comparison to \$15.0 million in Q1 2005), payment of dividend (\$50 million in Q1 2006 in comparison to nil in Q1 2005) and fees related to the purchase of Addax Petroleum N.V. by the Corporation. The cash inflow for the half year to June 2005 consisted of loan drawdowns used to fund the OPL90 development program.

COMMITMENTS

On July 20, 2006 the Corporation announced that it had agreed to acquire two wholly-owned subsidiaries of Pan-Ocean Energy Corporation Limited offering CDN \$1.605 billion in cash. Funding will be provided by a combination of internal cash resources and firm financing commitments from a syndicate of lenders. For more information, please refer to the 'proposed transactions' section above.

The Corporation has assumed various contractual obligations and commitments in the normal course of its operations and financing activities. These obligations and commitments have been described in the December 31, 2005 MD&A and have not significantly changed during the six month period ended June 30, 2006.

RISKS AND UNCERTAINTIES

The Corporation 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 the Corporation'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 to contracts.

The Corporation uses a variety of means to help minimize these risks. The Corporation maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses. Operational control is enhanced by focusing efforts on large core regions with high working interests and by assuming operatorship of all key facilities. Sales of crude oil are aimed at various markets to ensure that undue exposure to any one market does not exist. Financial instruments are utilised to help ensure targets are met to manage commodity prices, foreign currency rates and interest rate exposure. The Corporation

minimizes credit risks by entering into sales contracts and financial derivatives with only high rated entities and financial institutions. In addition, the Corporation reviews its exposure to individual companies on a regular basis, and where appropriate ensures that parental guarantees or letters of credit are in place to minimise the impact in the event of default.

The Corporation's current position with respect to its financial instruments is detailed in note 6 to the consolidated financial statements. The arrangements and policies concerning the Corporation's financial instruments are under constant review and may change depending upon prevailing market conditions.

The corporation has direct responsibility for Health, Safety and Environment (HSE) in its Nigerian and Cameroonian properties. The Corporation has implemented HSE policies in respect of its operations. These HSE policies are an important part of the responsibilities of the Corporation's managers and significantly influence the operations of the Corporation.

The Corporation requires all employees and contractors to comply with HSE policies. The HSE policies are codified in the Corporation's HSE manual, which define individual HSE responsibilities and suggests ways to promote and support a safe and healthy environment. The Corporation circulates the manual to employees in all locations and managers regularly discuss the policies with staff at periodic safety meetings. In Nigeria, the Corporation has a dedicated HSE department that focuses on accident prevention, monitors operational compliance with the HSE policies and advises management on statutory and industry requirements. The manager of this HSE department reports directly to the Managing Director of Nigerian Operations of the Corporation and is a member of the management committee, which meets weekly to discuss and direct the Corporation's activities.

The HSE policy of the Corporation emphasizes leadership, commitment and training, risk management, health and safety operations, environmental protection and incident response plan.

ENVIRONMENT

(\$ million)	Jun.30	As at Jun.30	Mar.31
	2006	2005	2006
Asset retirement obligations	26.6	24.2	25.9
OML123-124	14.0	12.8	13.7
OPL90	12.6	11.4	12.2

The asset retirement obligation relates to both OML123/124 and OPL90 in Nigeria. The Production Sharing Contracts (PSC) for OML123/124 specifies that the Corporation's share of the total asset retirement obligation shall equal the percentage derived from the relationship of the anticipated remaining production to the production prior to the corporation assuming the operatorship. Costs relating to property, plant and equipment constructed after the Corporation assumed operatorship is allocated 100% to the corporation.

The increase in the asset retirement obligation for both OML123/124 and OPL90 between the six months periods ended June 30, 2005 and 2006 relates to the accretion of the liability over this period.

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the Corporation's financial statements, management is required to use judgements, assumptions and estimates in the application of generally accepted accounting policies which has an impact on the financial results of the Corporation. These estimates and assumptions are based on the best available information at the time, but may change due to new events and additional information giving rise to changes in the estimates over time. Note 1 of the Corporation's consolidated financial statements for the year ended December 31, 2005 explains the significant financial accounting policies used by the Corporation. The following is a discussion of the critical accounting policies which use significant assumptions and estimates in determining the financial results of the Corporation.

Estimated Oil Reserves

Reserve estimates have a significant impact on earnings due to its impact on depreciation and depletion rates and asset impairment. The Corporation's reservoir engineers perform an internal evaluation on a bi-annual basis of all of its crude oil reserves. The estimation of reserves are based on engineering data, projected future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to numerous uncertainties and interpretations. The Corporation expects over time that its reserves will change, upwards or downwards, as a result of the results of future drilling, testing, production levels, changes in future price estimates, and economics of recovery based on cash flow forecasts. A change in the reserves estimate may result in a higher or lower depletion charge to the income statement and affect the future tax charge. A lower reserve estimate could result in a write-down of an oil property under the ceiling test.

Independent petroleum engineering consultants evaluate 100 per cent of the oil properties on a semi-annual basis, and reconciliation is performed between the Corporation's reserves estimates and that of the independent consultants.

Asset Impairments

Annually, an impairment test is performed to ensure that unamortized capitalized costs do not exceed their fair value. An impairment loss will be recognized in the income statement when the carrying value of a cost centre exceeds the estimated undiscounted future cash flows. The future cash flows used in the impairment test include assumptions on oil prices, production, and operating costs. Changes to any of these assumptions such as a decrease to future oil prices, a decrease in reserves, or an increase in operating costs could result in the impairment of an asset's carrying value.

Full Cost Accounting

The Corporation follows the full cost method for accounting for oil and gas properties as described by the Canadian Institute of Chartered Accountants. Accordingly, costs incurred in

the exploration and development of oil and gas properties are capitalized on a country by country cost pool basis. Capitalized costs include land acquisition, geological and geophysical activities, exploration and development wells, both successful and unsuccessful, related plant and equipment, directly attributable interest costs, overhead charges directly related to exploration and development and the estimated discounted cost of the asset retirement obligations.

The capitalized costs are depreciated, depleted and amortized on a unit of production method based on proved reserves for each producing cost pool. Costs relating to unproved properties and certain development projects are not subject to depreciation, depletion and amortization until production commences. The costs relating to unproved properties are reviewed periodically and any impairment is transferred to the costs being depleted, or if it is ascertained there are no reserves relating to the unproved properties, the impairment is charged directly to the income statement.

Asset Retirement Obligation

The Corporation currently records the asset retirement obligations of fixed assets at fair value when they are incurred, discounted to the Corporation's credit-adjusted risk free interest rate. Retirement costs equal to the fair value are capitalized as part of the related capital assets and are amortized to the income statement over the estimated life of the asset. Estimates of the fair value of the retirement obligations can change over time due to legislation, current costs, technology, interest rates and field life, which can affect the rate of amortization. Differences between the estimated and actual costs to settle the retirement obligation could result in gains or losses in the settlement of the obligation.

Income Taxes

The Corporation follows the liability method of accounting for income taxes under which the future tax consequences are recognized for temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period in which the change occurs.

The Corporation earns capital investment allowances on capital expenditures in Nigeria. The future income tax benefits arising from capital investment allowances are recorded when the capital investment allowances are earned and reduce the carrying amount of property, plant and equipment. Capital investment allowances are charged to future income tax in the statement of operations as the tax benefits are realized.

RELATED PARTY TRANSACTIONS

The Corporation has entered into the following transactions with AOG:

- the Share Transfer Agreement between a subsidiary of AOG and Addax Petroleum Corporation;

- the 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**");
- the Management Services Agreement;
- Bunkering Agreement;
- the Agreement for Services of Jean Claude Gandur, effective January 1, 2006 between APS and AOG;
- the Trademark Agreement; and
- the Non-Competition Agreement.

Share Transfer Agreement

Addax Petroleum Corporation and a subsidiary of AOG have entered into the Share Transfer Agreement under which Addax Petroleum Corporation has acquired a full and legal ownership of all of the outstanding shares of Addax Petroleum N.V. at the time of the IPO. In consideration for the transfer of ownership of Addax Petroleum N.V. to Addax Petroleum Corporation, the AOG subsidiary received the equivalent of 120,000,000 Common Shares.

The Crude Oil Supply Agreements

The existing Crude Oil Supply Agreements were executed at the same time as the Credit Facility arranged by BNP Paribas, of which assignment of the Crude Oil Supply Agreements and the proceeds from oil sales constitute a significant element of the loan security package. The Crude Oil Supply Agreements shall terminate on the later of the Maturity Date and the Final Discharge Date (as defined in the Credit Facility and anticipated to be December 31, 2008 at the latest).

The price of crude oil is determined for (i) Antan crude liftings, FOB Antan Terminal as the average of Platt's Crude Oil Marketwire quotations, midpoint of spot assessment for Brent Crude effective for the month of loading, plus/minus a premium on/discount off to be mutually agreed by both parties, (ii) Brass River Blend crude liftings, FOB Brass River Terminal as the average of Platt's Crude Oil Marketwire quotations, midpoint of spot assessment for Brent Crude effective for the month of loading, plus/minus the differential as quoted in the Official Selling Price for Brass River Blend Crude notified by NNPC to the Corporation for that month, and (iii) Okwori crude liftings, FOB Okwori Terminal as the average of Platt's Crude Oil Marketwire quotations, midpoint of spot assessment for Brent Crude effective for the month of loading, plus/minus a premium on/discount off to be mutually agreed by both parties. In each instance payment terms are in US dollars, paid offshore and 30 days from bill of lading date. Under the agreements amending the Crude Oil Supply Agreements each dated November 2005, ABV will receive a marketing fee of \$0.08 per barrel. The Corporation has the right of audit of ABV's resale of Antan crude, Brass River Blend crude and Okwori crude. The payment obligations of ABV under the Crude Oil Supply Agreements are guaranteed by AOG.

The Crude Oil Supply Agreements offer a reliable and competitive means for the sale of crude oil produced from its operations. The Board intends to have a semi-annual review of the terms and conditions of this arrangement.

Management Services Agreement

AOG provides management services to the various subsidiaries of AOG. The services include support in relation to financial control and reporting, legal, tax, risk and insurance, human resources, information technology, training and local expertise in-country.

Unless terminated for a breach of terms, the initial duration of the Management Services Agreement will expire on December 31, 2009 and will thereafter continue for further periods of one year unless and until terminated by six months prior notice given at any time by either party. The fee to be paid under the contract is \$2.5 million per year for the term.

Bunkering

A subsidiary of AOG provides fuel bunkering for the Corporation's FPSOs in Nigeria.

Agreement for Services of Jean Claude Gandur

Addax Petroleum Services Ltd has entered into a services agreement with AOG for the procurement of services to be rendered by Mr. Jean Claude Gandur as Chief Executive Officer and member of the Board of Directors of the Corporation. At present, it is anticipated that approximately 90 per cent of Mr. Gandur's time will be dedicated to Addax Petroleum. The total fee to be paid by the Corporation for such services is \$1.1 million per annum.

Unless terminated for a breach of terms, this agreement shall continue in force unless and until terminated by nine months prior notice given at any time by either party.

Trademark Agreement

The Corporation identifies itself using names and logos that indicate a relationship with AOG. The Corporation believes that association with the AOG trademark has been and will continue to be beneficial. The Corporation's regional strategic focus is the African continent, particularly West Africa where AOG has established itself in the petroleum trading, oil storage and retail petroleum products industries. The Trademark Agreement provides the Corporation with the right to use under a sub-license agreement all registered and unregistered AOG trademarks in any territory in which the Corporation has business activities.

Unless terminated for a breach of terms, the initial duration of the amended and restated Trademark Agreement will expire on December 31, 2009 and will thereafter continue for further periods of one year unless and until terminated by six months prior notice given at any time by either party. The Corporation will pay AOG a fixed annual fee of \$500,000 under this agreement.

Non-Competition Agreement

AOG has agreed with Addax Petroleum that, provided AOG and Jean Claude Gandur together own not less than 25 per cent of the issued and outstanding Common Shares, neither AOG nor any of its subsidiaries will:

- acquire any petroleum properties or facilities or participate in the exploration for or development and production of petroleum or participate in any upstream petroleum business opportunities, unless AOG has first offered such business opportunities to Addax Petroleum and Addax Petroleum has declined to acquire such business opportunities. Such offer must remain open for acceptance for a minimum of 30 business days. For purposes of certainty, petroleum trading, downstream activities or non-petroleum resource activities of AOG shall not be considered directly competing interests; or
- participate in any person, other than acquiring not more than five per cent of the equity of a publicly listed corporation, which engages in the above prescribed activities.

QUARTERLY FINANCIAL INFORMATION

	2006		2005				2004		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum Sales (million)	522.4	394.2	378.5	385.7	257.8	197.1	156.4	146.6	117.1
Net income (million)	57.9	56.5	38.1	85.6	53.5	28.9	21.3	15.8	13.7
Net income per share (\$)	0.41	0.44	0.33	0.73	0.46	0.25	0.18	0.14	0.12
Cash Flow from operations (million)	195.7	174.3	146.0	163.2	89.1	69.9	52.6	48.0	33.0
Per common share (\$)	1.40	1.36	1.25	1.39	0.76	0.60	0.45	0.41	0.28

Notes:

(1) Per share amounts for quarters 1 and 2 of 2006 are calculated on a basis of 127,850,100 and 140,100,100 Common Shares, respectively, and for the six months ended June 30, 2006, per share amounts are calculated on the basis of 134,008,940 common shares of Addax Petroleum Corporation.

(2) 2004 and 2005 per share amounts are calculated on a basis of 117,000,100 common shares of Addax Petroleum N.V.

(3) In the prospectus relating to the IPO of February 2006, the revenues did not take into account overlift adjustments for quarters 1, 2 and 3 of 2005. In quarter 1, 2005 there was an overlift adjustment of \$2.6 million which increased the petroleum sales from \$194.5 million contained in the prospectus, to \$197.1 million in the March 2005 income statement. In quarter 2, 2005 there was an overlift adjustment of \$2.1 million increasing the petroleum sales to \$257.8 million. In quarter 3, 2005 there was an overlift adjustment of \$2.1 million reducing the petroleum sales to \$385.7 million.

Petroleum Sales

The petroleum sales have increased by 33% between Q1 2006 and Q2 2006 from \$394.2 million to \$522.4 million. This increase is due to both an increase in prices and an increase in liftings during the quarters. The average selling price has increased by 16% from \$57.14 to \$66.09 whilst the liftings increased by 17% from 6.6mmbbls to 7.7mmbbls. The increase is due to the delay of a March 2006 lifting of 650,000 barrels in OPL90 due to the unavailability of tugs and a lifting delay in OML124 of 120,000. Both liftings occurred in April.

The general upward trend over the eight quarters of increasing petroleum sales has resulted from a combination of increased production from OML123, commencement of sales from OPL90 in Q2, 2005 and increasing crude oil prices throughout the period.

Net Income

Net income increased in Q2 2006 by 2% to \$57.9 million from \$56.5 million in Q 1. The major reasons for the increase were a \$128.2 million increase in petroleum sales which have been offset by an increase in expenses of 13.3% or \$19.8 million and an increase in taxes of \$91.8 million.

Expenses increased due to an increase in DD&A of \$7.4 million in Q2 2006 compared to Q1 2006 due to the increase in liftings discussed in the Petroleum Sales section above, an increase in operating costs of \$6.6 million from Q1 2006 to Q2 2006 primarily due to the increase in FPSO costs of \$3.4 million and vessel and helicopter costs of \$0.4 million in OPL90, and a charge of \$12.6 million relating to share based compensation partially offset by a reduction in pre-acquisition costs of \$7.5 million due to the capitalization of Okwok and Taq Taq in the second quarter of 2006.

The increase in taxes from \$84.1 million in Q 1 2006 to \$175.9 million in quarter 2, 2006 is primarily due to the increase in taxes in OPL90 as discussed in the Current Income Taxes section above and the increase in petroleum sales of \$128.2 million, discussed in the Petroleum Sales section above.

The general upward trend of increasing net income over the eight quarters is due to increasing petroleum sales, partially offset by increasing operating costs, DD&A and taxes. In quarters two and three 2005, the Corporation benefited from tax incentives in OPL90. In quarter two 2006, the Corporation no longer benefits from these tax incentives.

Cash Flow from Operations

Cash flow from operations increased by 12% to \$195.7 million in the second quarter of 2006 compared to \$174.3 million in the first quarter. The major increases in the second quarter compared to the first quarter of 2006 were an increase of \$1.4 million in net income, as discussed above, and an increase in items not affecting cash of \$19.9 million. This increase was due to an increase in DD&A of \$7.3 million and share based compensation of \$12.6 million. Cash flow from operations in Q2 2006 was adversely impacted due to the increase in current taxes in OPL90 of \$37.3 million.

The general upward trend in cash flow from operations in the eight quarters is due to increasing petroleum sales, partially offset by increasing operating costs and current taxes.