Management's Discussion & Analysis

For the year ended
December 31, 2008

The following Management's Discussion and Analysis of Addax Petroleum Corporation ("Addax Petroleum") is dated March 4, 2009 and should be read in conjunction with Addax Petroleum's audited consolidated financial statements for the year ended December 31, 2008 together with the notes thereto. The financial information presented herein is that 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 4, 2009 ("AIF"). Addax Petroleum's AIF and additional information regarding Addax Petroleum are available from SEDAR at www.sedar.com. All amounts presented are in United States dollars (US$) unless otherwise indicated.

READER ADVISORY REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A, including statements related to future capital expenditures, financing and capital activities, business strategy and goals, future commodity prices, reserves and resources estimates, drilling plans, development plans and schedules, future seismic activity, production levels and sources of growth thereof, results of exploration activities and dates that areas may come on-stream, royalties payable, contingent liabilities and government approvals, statements that contain words such as "may", "will", "would", "could", "should", "anticipate", "believe", "intend", "expect", "plan", "estimate", "budget", "outlook", "propose", "project", and statements relating to matters that are not historical fact constitute forward-looking information within the meaning of applicable Canadian securities legislation. In this MD&A, forward-looking information and statements include: budget, cost controls, commodity prices, and future financing.

Forward-looking information is subject to known and unknown risks and uncertainties attendant with oil and gas operations, and other factors, which include, but are not limited to imprecision of reserves and resources estimates; ultimate recovery of reserves; commodity prices; general economic, market and business conditions; industry capacity; competitive action by other companies; refining and market margins; the ability to produce and transport crude oil and natural gas to markets; weather and climate conditions; results of exploration and development drilling and other related activities; fluctuation in interest rates and foreign currency exchange rates; 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; international political events; and expected rates of return. More specifically, production may be affected by exploration success, 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.

In this MD&A Addax Petroleum has made assumptions with respect to the following:

- *prices for oil and natural gas;*
- *oil and gas reserve and resource quantities and the discounted present value of future net cash flows from these reserves and the ultimate recoverability of reserves;*
- *timing and amount of future production, forecasts of capital expenditures and the sources of financing thereof;*
- *the amount, nature, timing and effects of capital expenditures;*
- *plans for drilling wells and the timing and location thereof;*
- *expectations regarding the negotiation and performance of contractual rights;*
- *operating and other costs;*
- *business strategies and plans of management;*
- *anticipated benefits and enhanced shareholder value resulting from prospect development and acquisitions; and*
- *treatment under the fiscal terms of Production Sharing Contracts and governmental regulatory regimes.*

Addax Petroleum's actual results could differ materially from those anticipated in these forward-looking statements if the assumptions underlying them prove incorrect, or if one or more of the uncertainties or risks described above materializes. Risk factors are discussed in greater detail in filings made by Addax Petroleum with the Canadian provincial securities commissions.

Readers are strongly cautioned that the above list of factors affecting forward-looking information is not exhaustive. Further, forward-looking statements are made as at the date they are given and, except as required by applicable law, Addax Petroleum does not intend, and does not assume any obligation, to update any forward-looking statements, whether as a result of new information or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this advisory.

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 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. 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 these measures may differ from other companies and accordingly, it may not be comparable to measures used by other companies.

Contents

Highlights

Selected Highlights	Year ended		
(US$ million, unless otherwise stated)	**31-Dec 2008**	31-Dec 2007	31-Dec 2006
FINANCIAL:			
Petroleum sales before royalties	**4,607**	3,412	2,029
Funds Flow From Operations ("FFFO") [1]	**1,850**	1,313	829
FFFO per share ($/basic share)	**11.86**	8.45	5.80
FFFO per share ($/diluted share)	**11.49**	8.31	5.80
Net income	**784**	482	243
Earnings per share ($/basic share)	**5.03**	3.10	1.70
Earnings per share ($/diluted share)	**4.95**	3.09	1.70
Weighted average common shares outstanding (millions)	**156**	155	143
Cash dividend per share (CDN$/basic share)	**0.40**	0.20	0.10
Total assets	**5,317**	3,847	2,978
Capital expenditures, net of dispositions	**1,776**	1,172	1,099
Total long-term liabilities	**1,952**	1,457	932
OPERATIONAL:			
Average gross working interest oil production[2] (Mbbl/d):			
Nigeria	**108.0**	104.5	86.3
Gabon	**28.5**	21.4	3.7
Total	**136.5**	125.9	90.0
Prices, expenses and netbacks ($/bbl):			
Nigeria			
Average realized price	**94.53**	73.59	63.60
Operating expense	**7.61**	6.01	6.12
Operating netback	**69.21**	53.81	45.36
Gabon			
Average realized price	**93.80**	69.68	58.49
Operating expense	**12.05**	10.18	11.62
Operating netback	**65.40**	53.07	35.59

Highlights for the year ended December 31, 2008 compared to the year ended December 31, 2007 are:

- Petroleum sales increased by $1,195 million or 35%; relating primarily to variations in crude prices and rising production levels.
- FFFO increased by $537 million or 41% as a result of higher sales volumes and operating cash flows and fluctuations in the sales price.
- Net income increased by $302 million or 63%, as sales increased at a significantly greater rate than associated operating and depletion costs during the first three quarters.
- Gross working interest proved plus probable reserves as at December 31, 2008 increased 20% to 536.7 MMbbl.
- Capital expenditures increased by $604 million or 52% due primarily to increased development activity and inflation experienced in the oil industry.
- Average gross working interest oil production increased by 10.6 Mbbl/d or 8% resulting from development drilling and workover campaigns.
- Average daily sales increased by 5.0 Mbbl/d with rising production levels.
- Average operating netback for Nigerian crude oil increased by $15.40/bbl or 29% due primarily to variations in the average sales prices.
- Average operating netback for Gabonese crude oil increased by $12.33/bbl or 23% given the higher average realized sales prices offset somewhat by higher operating expenses per barrel.

Notes

[1] Refer to page 30 for reconciliation between FFFO and Cash Flows from Operating Activities [2] Production attributable to Addax Petroleum's working interest prior to the deduction of royalties and the relevant government's or government corporation's share of Profit Oil.

2008 Operational Update

HIGHLIGHTS

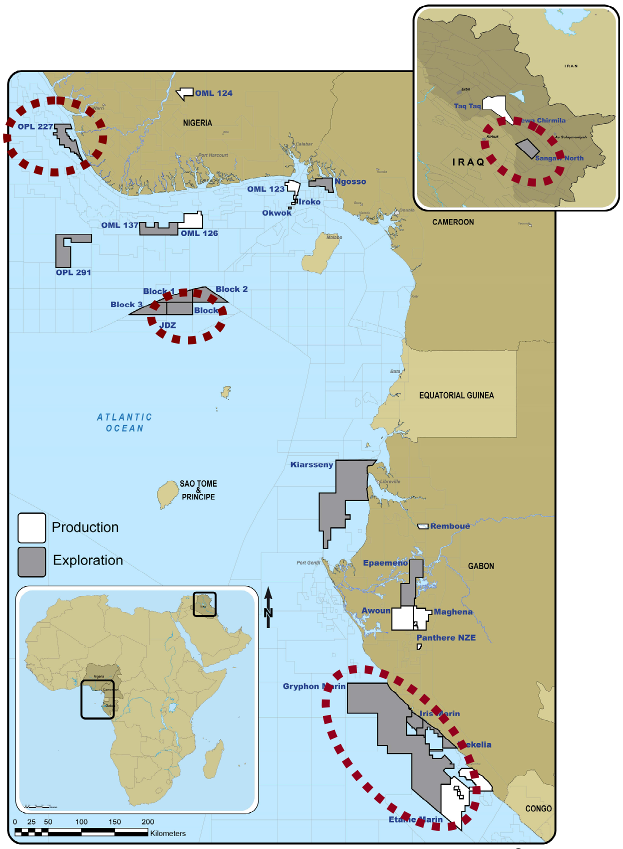
During 2008, Addax Petroleum's gross working interest oil production grew to 136.5 Mbbl/d, an 8% increase from 2007. Investment in capital projects amounted to $1.7 billion, excluding acquisitions, a 56% increase over 2007. Drilling activity resulted in a total of 66 development, exploration and appraisal wells being drilled during 2008 (2007: 52) and 20 wells in Q4 2008 (Q4 2007: 15). Operational and new business highlights for Q4 2008 include:

- Gross working interest oil production increased 5% over Q4 2007, 8% annually and was in line with previous guidance;
- Gross working interest proved plus probable reserves as at December 31, 2008 increased 20% to 536.7 MMbbl;
- Reserve replacement ratio of 281% for proved plus probable reserves;
- Contingent gas resources increased by 17% over 2007 to 2.8 Tcf;
- Risked prospective oil resources increased by 12% over 2007 to 825 MMbbl, while unrisked prospective oil resources increased by 23% over 2007 to 2,772 MMbbl;
- Eight drilling rigs operated by Addax Petroleum in Q4 2008, along with four drilling rigs on non-operated licenses;
- Acquisition of an additional 18.75% interest in the Gryphon Marin exploration license area, offshore Gabon bringing total interest in the license area to 68.75%; and
- Significant new discovery at Njaba in onshore Nigeria OML124 license area.

NEW BUSINESS

NIGERIA

During June 2008, Addax Petroleum was awarded a 40% interest in Oil Prospecting License ("OPL") 227, shallow offshore Nigeria and is awaiting receipt of the formal deed of assignment. Addax Petroleum's co-participants in the OPL227 license area are Express Petroleum & Gas Company Limited ("Express") and Petroleum Prospects International Limited ("PPI"), both indigenous Nigerian oil companies. Express will be the operator and Addax Petroleum will act as technical advisor. In return, Addax Petroleum paid a farm-in fee to Express and PPI and a signature bonus to the Federal Government of Nigeria, and is obligated to fund 80% of a work program comprising a minimum of 500 km^2 of 3D seismic during the exploration period, while Express will fund the remaining 20%. Addax Petroleum will also initially fund 80% of all capital and operating costs on OPL227, with Express funding the remaining 20%. Addax Petroleum will be entitled to a higher than pro-rata share of the net production from OPL227 until all capital costs have been recovered, after which all parties will be entitled to their pro rata share of production.



GABON

In June 2008, Addax Petroleum acquired an additional 18% working interest in the Iris Marin license area offshore Gabon by the acquisition of a subsidiary of Sterling Energy plc. Addax Petroleum holds a 51.33% working interest in the Iris Marin license area and is the operator.

During September 2008, Addax Petroleum acquired a 50% interest in the Gryphon Marin license area and a further 18.75% in December 2008. Addax Petroleum is the operator of the Gryphon Marin license area which covers a gross area of 2,409,200 acres (9,750 km^2) and is immediately north of Addax Petroleum's Etame Marin license, offshore Gabon. As part of the acquisition, Addax Petroleum inherited a full suite of seismic data including approximately 3,900 km^2 of modern 3D seismic and 2,100 km of 2D seismic. The Gryphon Marin license area is in an exploration period ending in November 2009 and carries a commitment to drill two wells.

The Themis Marin exploration license was relinquished in Q1 2008. The net book value of this property, which was not significant, was added to the Gabon depletion pool.

KURDISTAN REGION OF IRAQ

In September 2008, Addax Petroleum acquired a 33.33% interest in the Sangaw North Production Sharing Contract ("PSC"). The Sangaw North license area is operated by Sterling Energy plc ("Sterling"), covers approximately 121,600 acres (492 km^2) and is located approximately 80 kilometres southeast of Addax Petroleum's Taq Taq license. During Q4 2008, an assignment to the Korean National Oil Corporation was completed which reduced Addax Petroleum's interest to 26.67%. In addition, the Kurdistan Regional Government has the right to require that at a future date a government nominated entity be assigned 25% which, if exercised, will further reduce Addax Petroleum's interest to 20%. Under the terms of the acquisition, Addax Petroleum reimbursed Sterling for costs already expended and committed to fund a seismic acquisition program and the drilling of an exploration well.

JOINT DEVELOPMENT ZONE ("JDZ")

Addax Petroleum was awarded an additional 7.2% participating interest in JDZ Block 4 by an independent arbitration tribunal in July 2008. The award increased Addax Petroleum's interest in the license area from 38.3% to 45.5%. Furthermore, Addax Petroleum continued to carry the costs associated with ERHC Energy Inc.'s 19.5% interest in JDZ Block 4. Addax Petroleum is also the operator of Block 4 and expects to drill the Kina prospect either in late 2009 or in 2010.

CAMEROON

Addax Petroleum signed a PSC with the Republic of Cameroon in Q2 2008, relating to the Iroko exploration license area. Under the PSC, Addax Petroleum acquired a 100% interest in the Iroko license area and is the operator. The Société Nationale des Hydrocarbures, the national oil company of Cameroon, holds a back-in-right of 30% in case of a development. In consideration for its interest in Iroko, Addax Petroleum was obligated to pay a signature bonus and undertake, within the first three years, a minimum work program, which includes the acquisition of 3D seismic data and the drilling of one well, all of which have been completed as at December 31, 2008.

PRODUCTION AND DEVELOPMENT OPERATIONS

Addax Petroleum has both production and development operations, in addition to exploration, in Nigeria and Gabon. In addition, Addax Petroleum has appraisal and initial development activities in the Taq Taq license in the Kurdistan Region of Iraq through the Taq Taq Operating Company ("TTOPCO"), a joint venture between Addax Petroleum and Genel Energi AS.

NIGERIA

Gross working interest production in Nigeria averaged 113.1 Mbbl/d in Q4 2008, an increase of 2% over Q4 2007 and an average of 108.0 Mbbl/d for 2008, an increase of 3% over 2007. During Q4 2008, Addax Petroleum operated five drilling rigs in Nigeria: two jack-up rigs on OML123, one semi-submersible on OML126 and two land rigs on OML124.

Development drilling activity during Q4 2008 comprised drilling one gas injection well in OML126 and four development wells in OML123, including one water injection well. Over the full 2008 year, there were 19 development wells drilled in Nigeria, including one gas injection and four water injection wells. Seven new oil production wells were placed on production during Q4 2008 and 13 during the 2008 year.

GABON

Gross working interest production in Gabon averaged 29.4 Mbbl/d in Q4 2008, an increase of 19% over Q4 2007 and averaged 28.5 Mbbl/d annually, an increase of 33% over 2007.

During Q4 2008, Addax Petroleum operated one drilling rig in the Tsiengui field in the onshore Maghena license area, drilling four development wells and placing five wells on production, to help offset the decline from existing producers. Two new development wells were drilled and placed on production from the Tsiengui West field in the Awoun license area. Additionally, the third-party Operator of the Awoun license continued with the development of the Koula field; production start-up from this development is expected in the second half of 2009. Over the full 2008 year, there were 23 development wells and one gas injector well drilled in Gabon. During 2008, there were five rigs operating in Addax Petroleum's licenses in Gabon.

Addax Petroleum has responded to the well performance problems experienced in Gabon operations during mid-2008 tied to delays in gas injection and gas lift. In Q4 2008, three wells were put on gas lift and injection commenced into the gas cap to provide pressure support for reservoir optimizations.

KURDISTAN REGION OF IRAQ

In the fourth quarter of 2008, an early production system was installed and commissioned at Taq Taq allowing production capacity of up to 30 Mbbl/d and intermittent sales commenced to the local market. The environmental studies and front end engineering and design associated with an export pipeline from Taq Taq were completed and Addax Petroleum is currently investigating long-lead items required for the construction of an export pipeline to Kirkuk. In Q1 2009, a full field development plan is expected to be presented to the Kurdistan Regional Government and construction of new truck loading facilities is scheduled for completion during the quarter. Expansion of the on-site processing facilities is budgeted to continue in order to increase capacity up to 60 Mbbl/d in late 2009. The ability to produce significant quantities continues to be subject to agreement of export arrangements.

OIL AND NATURAL GAS RESERVES

Proved, probable and possible oil reserves have been evaluated by Netherland, Sewell & Associates, Inc. ("NSAI") as at December 31, 2008 in accordance with National Instrument 51-101 and classified in accordance with the guidelines as stipulated in the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The reserves in the following table are those reserves which are anticipated to be commercially recoverable from known accumulations from December 31, 2008 forward. The reserves shown in the table are based upon the working interest of Addax Petroleum in the applicable PSC for the stated licenses. The petroleum reserves of Addax Petroleum are comprised of light to medium oil reserves in Nigeria, Gabon and the Taq Taq license area of the Kurdistan Region of Iraq. In addition to the oil reserves, a substantial amount of contingent gas resources exist in the Nigerian licenses. Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Best estimate total contingent gas resources are estimated to be 2.8 Tcf (2007: 2.4 Tcf) together with 83.5 MMbbl (2007: 77.2 MMbbl) of associated liquids. Addax Petroleum is seeking to establish a framework for the monetization of contingent gas resources going forward.

Gross working interest proved plus probable reserves have increased by 20% in 2008 compared with 2007, due to exploration, appraisal and development drilling campaigns in Nigeria, Gabon and Kurdistan Region of Iraq and proved reserves have decreased by 8% in the same period since production in 2008 slightly exceeded proved reserve additions. NSAI typically has not assigned proved reserves to wells without production test results. Management elected not to test the Kita Marine appraisal wells in 2008, where 32 MMbbl of probable reserves were added during the year, given its confidence in the reservoir and close proximity to existing fields. Similarly, 42 MMbbl of probable reserves were booked from the Njaba well but there were no proved reserves booked due to its drilling late in the year and the well had not yet been production tested. Management considers this classification to be a timing issue in that these reserves are expected to be moved from probable to proved through additional drilling in 2009. In Nigeria, gross working interest proved plus probable reserves increased by 23% and gross working interest proved reserves decreased by 13% in 2008 compared with 2007 due to the factors noted above. In Gabon, gross working interest proved plus probable reserves decreased by 6% and gross working interest proved reserves decreased by 16% in 2008 compared with 2007 due primarily to oil production which totalled 10.4 MMbbl during the year. In Kurdistan, gross working interest proved plus probable reserves increased by 47% due to additional appraisal activity during the year. Addax Petroleum booked its first proved reserves at Taq Taq at December 31, 2008.

The complete statement of reserves and resources data and other oil and gas information can be found in Addax Petroleum's Annual Information Form ("AIF") dated March 4, 2009. The following tables summarize Addax Petroleum's gross working interest oil reserves and selected contingent gas and prospective oil resources information as at December 31, 2008:

Oil Reserves		**2008**			2007		
(%, MMbbl)	**Working Interest**	**Proved**	**Proved plus Probable**	**Proved plus Probable plus Possible**	Proved	Proved plus Probable	Proved plus Probable plus Possible
Nigeria							
OML123	100.00%	**81.0**	**190.2**	**249.6**	94.5	161.4	220.6
OML124	100.00%	**20.2**	**65.7**	**105.2**	18.2	23.4	38.9
OML126	100.00%	**32.6**	**42.9**	**73.1**	41.5	52.4	59.9
OML137	100.00%	**--**	**17.2**	**21.9**	--	17.1	19.8
Okwok	40.00%	**--**	**7.9**	**9.1**	--	8.4	9.5
Subtotal - Nigeria		**133.8**	**324.0**	**458.9**	154.2	262.7	348.7
Gabon							
Awoun	40.00%	**12.6**	**17.4**	**19.6**	10.8	19.0	24.1
Etame	31.36%	**9.8**	**16.9**	**27.1**	6.6	13.4	22.5
Maghena	92.50%	**24.9**	**29.0**	**31.8**	38.8	38.8	38.8
Panthere NZE	92.50%	**17.9**	**33.9**	**41.3**	21.2	36.5	41.1
Rembοué	92.00%	**1.5**	**6.1**	**7.2**	1.8	1.8	1.8
Subtotal - Gabon		**66.7**	**103.3**	**127.0**	79.1	109.4	128.2
Kurdistan Region of Iraq							
Taq Taq	36.00%*	**13.7**	**109.5**	**152.6**	--	74.6	103.4
Total		**214.2**	**536.7**	**738.4**	233.3	446.7	580.3

Totals may not add because of rounding

* Assumes back-in rights exercised by Kurdistan Regional Government (45% working interest if not exercised)

Addax Petroleum Best Estimate
Contingent Gas Resources in Nigeria as at December 31, 2008

	Contingent Gas Resources[1] (Bcf)	**Associated Gas Liquids[2]** (MMbbl)
OML123	1,013.0	25.2
OML124	377.0	22.8
OML126	91.7	1.5
OML137	1,337.1	34.0
Okwok	1.7	--
Total	**2,820.4**	**83.5**

Totals may not add because of rounding. There is no certainty that these contingent resources will be commercially viable.

[1] after deductions for plant fuel and extraction of gas liquids

[2] includes LPG and C5+

Estimates of Addax Petroleum's Prospective Oil Resources as at December 31, 2008

(MMbbl)	Best Estimate Prospective Oil Resources Unrisked	Risked
Shallow water and onshore Nigeria and Cameroon		
OML123	341	71
OML124	110	9
OML126	272	51
OML137	254	112
Ngosso (Cameroon)	54	12
Sub-total	**1,030**	**255**
Deep Water Gulf of Guinea		
JDZ (1, 2, 3 & 4)	793	306
OPL291 (Nigeria)	566	188
Sub-total	**1,359**	**493**
Kurdistan Region of Iraq		
Kewa Chirmila	10	1
Sangaw North	126	14
Sub-total	**136**	**15**
Gabon		
Onshore	99	18
Offshore	149	43
Sub-total	**248**	**61**
Total	**2,772**	**825**

Totals may not add because of rounding. There is no certainty that any portion of these prospective oil resources will be discovered. If discovered, there is no certainty that their development will be commercially viable.

EXPLORATION AND APPRAISAL OPERATIONS

During 2008, Addax Petroleum's exploration and appraisal activities concentrated on exploration drilling and seismic acquisition in onshore Gabon and Cameroon. Addax Petroleum has significant exploration potential in all of its license areas and has planned for a long term and continuous exploration program.

NIGERIA

Over the full year 2008, Addax Petroleum drilled seven appraisal and two exploration wells in Nigeria and proved plus probable reserves increased by 23% to 324.0 MMbbl as at December 31, 2008 from 262.7 MMbbl as at December 31, 2007. The most significant addition to reserves in Nigeria came from additional appraisal activity at the Kita Marine field in OML123 which increased the probable reserves in that field by 34.0 MMbbl.

Addax Petroleum recently announced a significant onshore oil discovery from the Njaba 2 well in the eastern part of the OML124 license area. The Njaba discovery encountered four oil bearing reservoirs totaling 289 feet of gross oil column and Addax Petroleum booked 42 MMbbl of probable reserves from this well in 2008. Production from the Njaba discovery can be readily tied in as Addax Petroleum has existing production facilities and infrastructure in the OML124 license area. A test of the main reservoirs is planned in addition to drilling an additional appraisal well down-dip of the discovery which may further enhance the recoverable reserves from Njaba.

Addax Petroleum recently made a successful appraisal of the northern area of the Ossu field in OML124 onshore Nigeria. The Ossu 14 (North) well has expanded the areal extent of the Ossu field by proving the presence of oil north of a saddle separating the main field from an independent block. In addition, Addax Petroleum drilled the Adanga North Graben prospect in OML123 offshore Nigeria and encountered gas.

CAMEROON

In 2008, Addax Petroleum drilled four exploration wells in Cameroon. At Ngosso, the Odiong and Tali exploration prospects were drilled mid-2008, whereby the sidetrack at Tali encountered a gross hydrocarbon column of 79 feet comprising 62 feet of oil overlain by 17 feet of gas, confirming the Tali accumulation. These exploration wells completed Addax Petroleum's work commitment under the existing exploration period of the Ngosso PSC.

In Q1 2009, the current exploration period in the Ngosso license expired. Addax Petroleum entered the next two-year exploration period, subject to Government approval. This next exploration period includes a commitment to drill one exploration well. A 3D seismic acquisition campaign commenced in Q4 2008 and it is anticipated to be completed in Q1 2009.

An exploration well was drilled in the Iroko license area during 2008 and the results of the core, pressure and wireline data are under evaluation by Addax Petroleum in order to determine the future drilling plans for the license area.

GABON

In 2008, Addax Petroleum drilled three appraisal and three exploration wells in Gabon. During Q4, the Andok exploration well was drilled in the Maghena license area onshore Gabon where hydrocarbon shows were encountered in the main objective interval and through an up-dip sidetrack. Furthermore, two appraisal wells were both drilled in the Ebouri field of the Etame license area; this field commenced production in late January, 2009. 2D seismic acquisition was completed on the northern part of the Epaemeno license and in the Remboué license. Seismic interpretation and processing continues on the Epaemeno, Remboué and Maghena license areas.

KURDISTAN REGION OF IRAQ

In 2008, Addax Petroleum drilled four appraisal wells in the Kurdistan Region of Iraq. In Q1 2008, the TT-08 and TT-09 appraisal wells in the Taq Taq field were drilled and successfully flow-tested. Through TTOPCO, Addax Petroleum imported a second, larger drilling rig (Kurdistan-1) and commenced the drilling of the TT-10 well in late Q3 2008. The well is to be tested in Q1 2009. The TT-11 appraisal well was completed during Q4 2008 reaching a total depth of approximately 1,000 metres. The TT-11 well encountered a gross oil column of 52 metres in the Pila Spi formation and was flow tested at 470 bbl/d of 23° API oil with no water. There has also been ongoing 3D seismic interpretation and extensive core analysis studies throughout 2008. Addax Petroleum commenced drilling in the Kewa Chirmila prospect in January 2009.

GULF OF GUINEA, DEEPWATER

In 2008, Addax Petroleum continued to conduct technical studies evaluating the exploration prospect drilling locations of its deep water licenses.

2008 Financial Update

Addax Petroleum's 2008 annual results demonstrate a record year for net income ($784 million) and FFFO ($1,850 million) as a result of higher production levels and strong oil prices during the first three quarters of 2008. In Q4 2008, net income and FFFO were reduced as oil prices fell with the global financial crisis. Significant events affecting Addax Petroleum's financial condition during 2008 are discussed below.

GLOBAL FINANCIAL CRISIS

The global financial crisis, which gathered momentum in the second half of 2008, affected Addax Petroleum's revenues and cash flows primarily as a result of the decline in oil prices during Q4 2008. In 2009, Addax Petroleum expects average oil prices to be lower than average prices in the first half of 2008 thus leading to lower oil revenues and cash inflows. In anticipation, management is planning to delay certain capital projects and is renegotiating contract terms, where possible, in order to reduce operating and overhead costs and execute sanctioned capital projects at lower cost. Furthermore, Addax Petroleum is managing its operations in the overall global financial crisis through:

- daily monitoring of oil production and consequent expected revenues;
- maintaining and regularly updating near term and medium term cash flow forecasts;
- actively managing working capital commitments;
- ensuring all revenues are received timely in accordance with crude oil lifting and sales agreements;
- entering into two year swap arrangements, fixing the interest rate on $500 million of long-term debt; and
- maintaining sufficient unutilized capacity in debt financing facilities ($600 million as at December 31, 2008).

FUNDS FLOW FROM OPERATIONS ("FFFO")

FFFO, representing funds generated from operations in excess of operation and overhead costs, decreased in Q4 2008 to $318 million from $428 million in Q4 2007 due to the fall in crude oil prices during Q4 2008. On an annual basis FFFO increased by $537 million mainly given the higher oil price in Q1 to Q3 2008 than the comparative 2007 periods. Given certain work program commitments and contractual arrangements which cannot be changed in the short term, Addax Petroleum anticipates utilizing further debt financing from within existing committed facilities during the first half of 2009. Addax Petroleum's strategy remains one of reinvesting free cash flow generated from producing operations and to adjust the work program in the light of prevailing oil prices in order to achieve this without recourse to further financing over the full year.

DIVIDENDS DECLARED

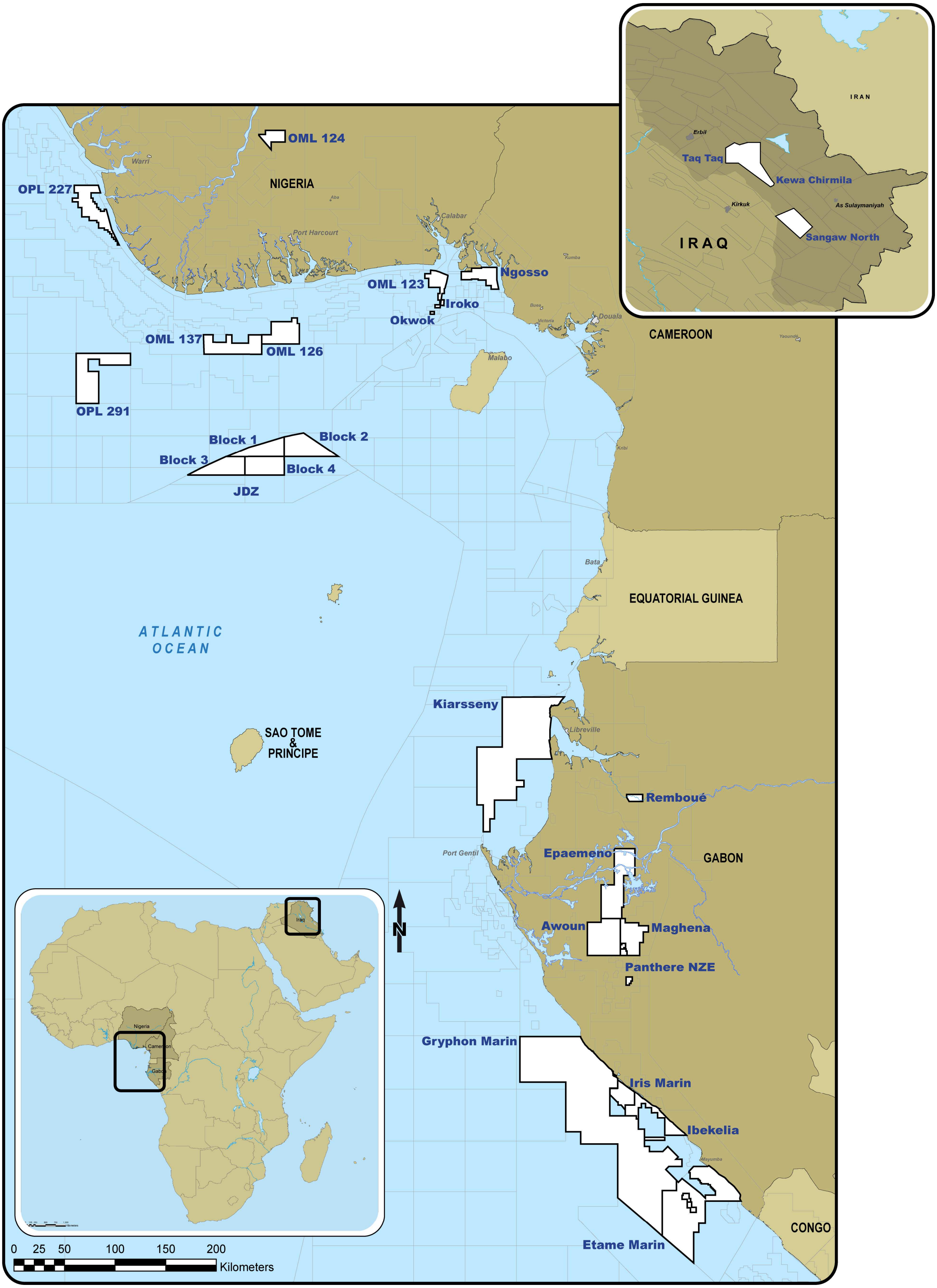
Record Date	*Payment Date*	*Dividend Amount*
March 6, 2008	March 20, 2008	CDN $0.10 per share
May 29, 2008	June 12, 2008	CDN $0.10 per share
August 28, 2008	September 11, 2008	CDN $0.10 per share
November 27, 2008	December 11, 2008	CDN $0.10 per share

In accordance with Canada Revenue Agency Guidelines, dividends paid by Addax Petroleum during the period were eligible dividends.

FINANCING

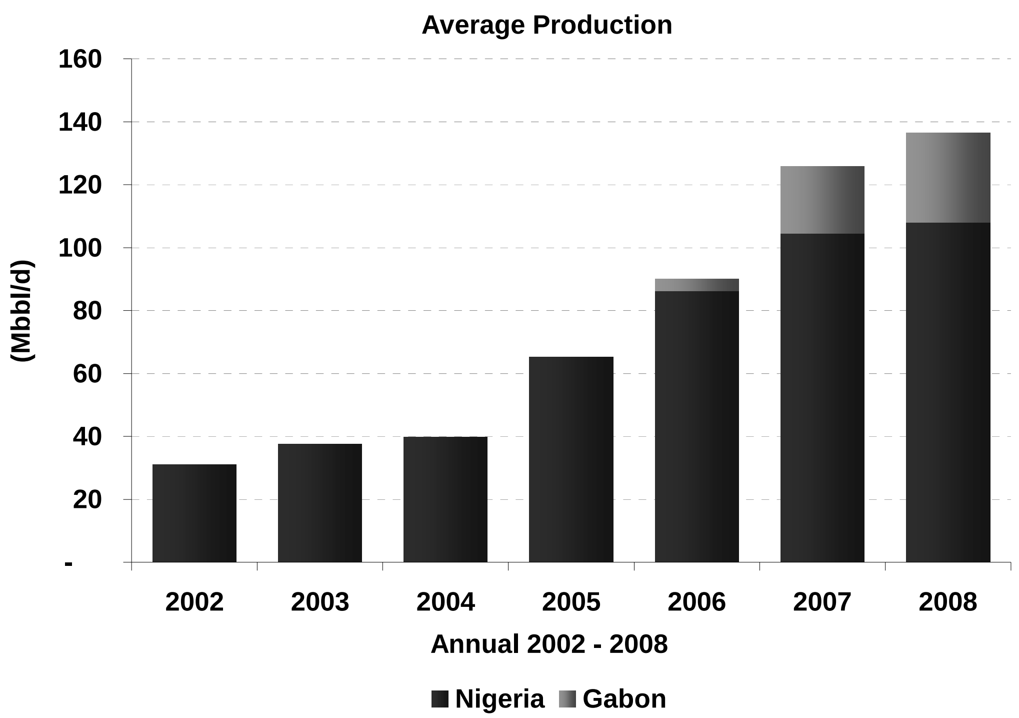
In September 2008, Addax Petroleum successfully completed the syndication of its $500 million senior unsecured revolving credit facility through a bank consortium. The facility was originally entered into in Q2 2008 at an amount of $450 million and was increased to $500 million as a result of oversubscription by participating financial institutions during the syndication process.

License Areas



Production

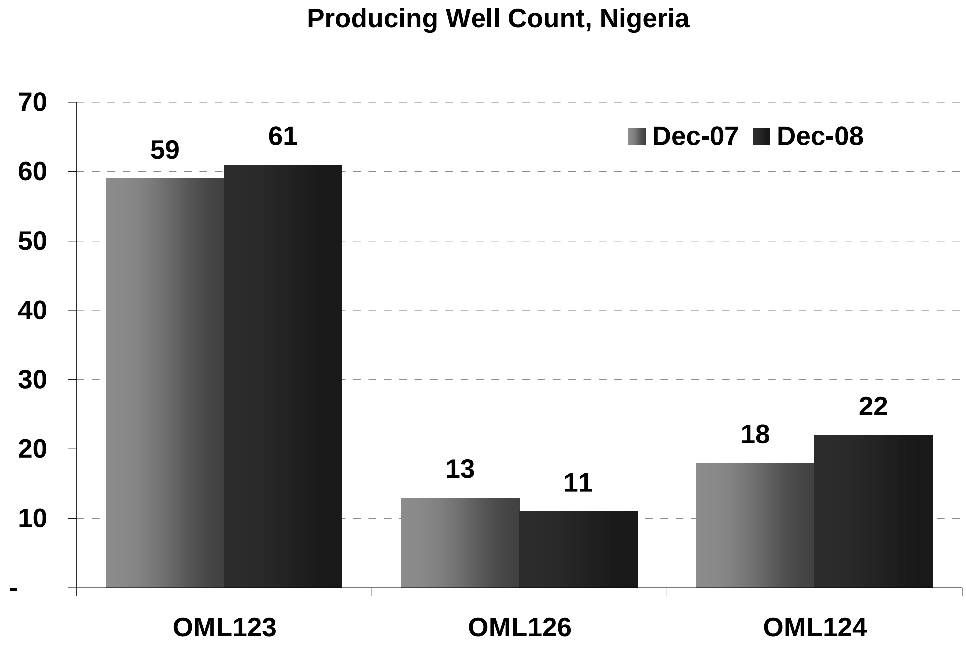
Production has increased overall in Q4 2008 by 5% compared to Q4 2007 and 8% annually. This upward trend is consistent with recent years and is the result of continued development drilling activities. Approximately 42% of Addax Petroleum's production in Q4 2008 is from offshore OML123 (Q4 2007: 44%), 5% is from onshore OML124 (Q4 2007: 6%) and 32% (Q4 2007: 32%) is from offshore OML126, all in Nigeria. Gabon contributed 21% to Q4 2008 production (Q4 2007: 18%). These percentages are similar on an annual basis for both 2008 and 2007.



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

Average gross working interest oil production	Three months ended		Year ended	
	31-Dec	31-Dec	**31-Dec**	31-Dec
(Mbbl/d)	**2008**	2007	**2008**	2007
Nigeria				
OML123	**60.7**	59.3	**58.4**	55.9
OML126	**45.7**	44.2	**42.3**	41.2
Subtotal – Offshore Nigeria	**106.4**	103.5	**100.7**	97.1
OML124	**6.7**	7.9	**7.3**	7.4
Subtotal – Offshore and Onshore Nigeria	**113.1**	111.4	**108.0**	104.5
Gabon				
Panthere NZE	**1.5**	1.9	**1.6**	2.5
Maghena	**17.4**	15.9	**18.1**	11.8
Awoun	**3.7**	--	**1.5**	--
Remboué	**0.5**	0.6	**0.6**	0.7
Subtotal – Onshore Gabon	**23.1**	18.4	**21.8**	15.0
Etame - Offshore	**6.3**	6.4	**6.7**	6.4
Subtotal – Offshore and Onshore Gabon	**29.4**	24.8	**28.5**	21.4
Total	**142.5**	136.2	**136.5**	125.9

NIGERIA



Nigeria produced an average of 113.1 Mbbl/d in Q4 2008, an increase of 1.7 Mbbl/d or 2% from Q4 2007 and increased by 3.5 Mbbl/d or 3% annually. Addax Petroleum has a 100% working interest in, and is the operator of, all of its Nigerian producing license areas.

OML123

Production in OML123 increased by 1.4 Mbbl/d or 2% in Q4 2008 compared to Q4 2007 and increased by 2.5 Mbbl/d or 4% annually. There were six production wells brought on-stream during Q4 2008, of which three were new wells completed during the current quarter. On an annual basis, ten development and four water injection wells were drilled. All development wells drilled during 2008 were brought on production during the year. Facility challenges including delays in pipeline construction and topside installations were experienced mid-year causing approximately 8 Mbbl/d of production from Oron West South to be shut-in during Q3 2008. These difficulties have since been overcome and production re-commenced in Q4 2008.

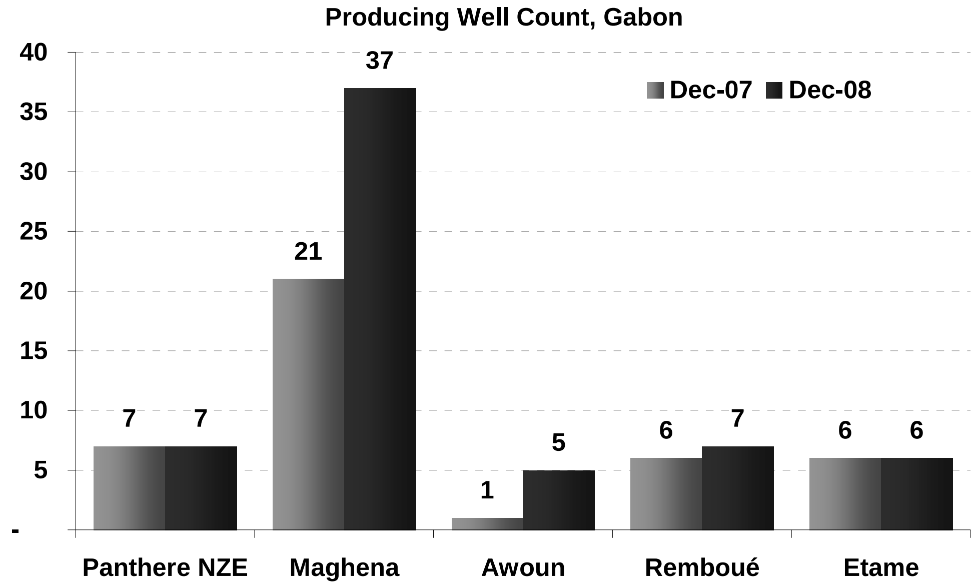
OML126

In Q4 2008, OML126 production increased by 1.5 Mbbl/d (3%) compared to Q4 2007 and by 1.1 Mbbl/d (3%) annually. During Q4 2008, there was one gas injection well drilled that will be tied in during Q1 2009, and one development well commenced drilling. On an annual basis, there were two development wells and one gas injection well drilled during 2008.

OML124

OML124 quarterly production fell 1.2 Mbbl/d or 15% compared to Q4 2007 and 0.1 Mbbl/d or 1% annually. The production drop in Q4 2008 resulted from two consecutive field shut downs attributed to tank topping at the Brass terminal and vandalism of the main export pipeline, which is operated by a third-party. There were two development wells drilled during the 2008 year, both of which were brought on production in 2008. There was also a successful appraisal well drilled that added reserves to the Ossu development. Subsequent wells to the successful appraisal well are currently in the planning phase.

GABON



Gabon produced an average of 29.4 Mbbl/d in Q4 2008, an increase of 4.6 Mbbl/d or 19% from Q4 2007 and 7.1 Mbbl/d or 33% annually.

Overall, the onshore Gabon production has recovered from a decline experienced in early 2008 caused by higher than expected water and gas production as well as a well completion failure. Some of these difficulties have since been resolved in conjunction with the addition of new production wells resulting in production volumes returning to expected levels in the later part of 2008. In Q4 2008, the development campaign continued as seven new wells were brought on production, six of which were drilled in the same quarter. On an annual basis 24 development wells were drilled and 21 wells commenced production.

Maghena, Panthere NZE and Awoun

Oil from the Maghena, Panthere NZE and Awoun license areas is transported through the third party operated Coucal pipeline facility. This pipeline imposed a production capacity restriction of 27 Mbbl/d during 2008, however as this limit was above actual production it did not constrain 2008 volumes, as it did in 2007 when the limit was lower. Furthermore, capacity may be increased further to 30 Mbbl/d depending upon the quality of the crude oil composition.

Maghena's production increased by 1.5 Mbbl/d (9%) during Q4 2008 and 6.3 Mbbl/d (53%) on an annual basis compared to the prior periods. This rise in production is the result of an additional 17 development wells brought on production annually (five in Q4 2008). Maghena comprised 83% of Addax Petroleum's Gabon onshore production during 2008. Addax Petroleum has a 92.5% working interest and is the operator of the license area.

Awoun commenced its first production from one well (an extension of the Tsiengui field into Awoun named Tsiengui West) during Q4 2007 with four additional wells brought on production during 2008, two of which were in Q4 2008. Production was 1.5 Mbbl/d in 2008 as a result of continued production from the first well throughout the year, two wells brought on production at the end of Q3 and the two new wells in Q4 2008. A third party operates the Awoun PSC, for which Addax Petroleum has a 40% working interest. Negotiations are underway regarding the unitization of the Tsiengui West field which is at the western edge of the Maghena PSC's Tsiengui field.

Production declined 0.4 Mbbl/d or 21% in Panthere NZE during Q4 2008 compared to Q4 2007 and by 0.9 Mbbl/d or 36% on an annual basis. During 2008, the producing Obangue field experienced a natural decline in production and there were no new wells brought on production during the year. However, a significant development drilling campaign is planned to begin for the Obangue field in early 2009. Addax Petroleum has a 92.5% working interest and is the operator of the license area.

Remboué

During Q4 2008, production declined 0.1 Mbbl/d (17%) from Q4 2007 and by 0.1 Mbbl/d (14%) on an annual basis. There were no new producing wells brought on production during 2008, however, a workover campaign commenced during mid-2008 and is intended to improve production volumes. Addax Petroleum has a 92% working interest and is the operator of the license area.

Etame

Etame production decreased by 0.1 Mbbl/d or 2% in Q4 2008 compared to Q4 2007 however, production increased by 0.3 Mbbl/d or 5% annually. At the end of 2007, the third party operator of the Floating Production, Storage and Offloading vessel ("FPSO") used by the Etame field operations, announced the extension of the lease period given the joint venture consortium's agreement to pay for certain upgrades to the FPSO's water treatment capacity. These upgrades will allow total fluid capacity to increase in 2009. Heavy lift of the water handling and flare equipment onto the FPSO was completed in Q3 2008 and the water treatment upgrades were commissioned in Q4 2008 during a five-day shut down. Production was lower during Q4 2008 because of this shut down. Also in the Etame license area, the third party operator completed commissioning the Ebouri platform in Q4 2008 with first oil production achieved in early 2009. Addax Petroleum has a 31.36% non-operated working interest in the Etame license.

Crude Oil Marketing and Prices

In 2008, Addax Petroleum produced and sold crude oil from its three existing streams in Nigeria: Antan (OML123), Brass (OML124) and Okwori (OML126) and its five streams in Gabon: Panthere NZE (Obangue field), Maghena (Tsiengui field), Remboué, Awoun (Tsiengui West field) and Etame (Etame field). Awoun commenced production in December 2007; however none of the production from Awoun was sold until January 2008. Nigerian sales agreements are based on Dated Brent prices and Gabonese sales agreements are based on Rabi blend and Dated Brent prices. 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 discounts *(US$/bbl)*	**Three months ended** **31-Dec 2008**	31-Dec 2007	**Year ended** **31-Dec 2008**	31-Dec 2007
Average Dated Brent Benchmark Price	**54.91**	88.69	**96.99**	72.52
Nigeria Total				
Average Premium (Discount)	**(5.53)**	0.44	**(1.22)**	0.40
Average Realized Sales Price	**49.01**	89.78	**94.53**	73.59
OML123				
Average Premium (Discount)	**(8.22)**	(1.42)	**(4.43)**	(2.15)
Average Realized Sales Price	**47.50**	87.43	**92.64**	71.74
OML126				
Average Premium (Discount)	**(3.11)**	4.76	**2.74**	3.53
Average Realized Sales Price	**49.37**	94.45	**97.52**	75.39
Gabon Total				
Average Premium (Discount)	**(1.44)**	(5.45)	**(3.47)**	(3.76)
Average Realized Sales Price	**50.48**	82.73	**93.80**	69.68
Onshore				
Average Premium (Discount)	**(2.35)**	(7.66)	**(4.20)**	(5.16)
Average Realized Sales Price	**51.65**	80.66	**93.56**	69.07
Offshore				
Average Premium (Discount)	**1.65**	1.72	**(1.17)**	(0.43)
Average Realized Sales Price	**46.48**	89.48	**94.56**	71.11
Total	**49.28**	88.46	**94.38**	72.94

Note: The Average Dated Brent Benchmark Price represents the average of monthly values for the period referenced. Individual sales prices are expressed as differentials to the monthly average Dated Brent based on the actual timing of lifting which is at varying times over the period. Accordingly, the difference between the actual Average Realized Prices and Average Dated Brent Benchmark Prices stated above may not correspond to the actual Average Premium (Discount) to Dated Brent Crude. The average realizations for Nigeria and Gabon are weighted by volume of the relevant grades. The OML124 average realized sales price and average premium (discount) is included in the Nigerian Total, however it is not shown separately, due to materiality.

Overall, 2008 average oil prices realized by Addax Petroleum were higher than the comparative 2007 year by 29%, these oil prices fell during Q4 2008 relative to Q4 2007 by 44%. The average oil price realized during Q4 2008 is expected to be indicative of prices in 2009 and the higher prices achieved during the first three quarters of 2008 are not anticipated to be reached during 2009.

During the first seven months of 2008, the average Dated Brent oil price was volatile but generally rising from an opening price of approximately $97/bbl in January to a high of approximately $144/bbl mid-July. Crude prices have subsequently experienced a steady fall to approximately $40/bbl since the peak of July 2008, and ended the 2008 year surrendering those gains made since early 2007. Since the end of Q3 2008 and during Q4 2008, the growing turmoil in the financial markets generated a decline in confidence in the wider economic climate, with a negative impact on the outlook for commodity prices in general. Forecasts of economic growth have been reduced, along with inferred energy demand, and in spite of substantial planned cuts in the Organization of Petroleum Exporting Countries ("OPEC") crude production, sentiment within the energy market remains fragile.

In December 2008 and January 2009, violence in the Middle East temporarily halted the slide in crude prices, but did not make as significant an impact as such occurrences have in the past. OPEC has responded to the steady decline in oil prices with two sets of production cuts removing approximately 4.2 MMbbl/d in aggregate from the actual levels of OPEC output. The full impact of these cuts, due to be implemented in January 2009, will not be felt until later in 2009.

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Calculations of average premiums and discounts in the above table are based on the monthly average Dated Brent price for the period rather than the Dated Brent price on the actual date of sale. In Q4 2008, most Nigerian crude sales were made in the last two weeks of each month and due to the falling oil price, the actual price realized was lower than the average Dated Brent price for the period causing the discount to appear larger in the above table. This is the major reason for the change in the Q4 2008 Nigerian average discount or premium compared to Q4 2007. Typically, OML123 crude has an average discount between approximately $2/bbl and $3/bbl, OML124 crude an average premium between approximately $2/bbl to $4/bbl and OML126 crude an average premium between approximately $2/bbl and $4/bbl compared to Dated Brent. OML123 crude is exported as the Antan Blend, and crude from OML124 is commingled with crude oil from several third party oil fields resulting in a blend called Brass River Blend. OML126 crude is exported as the Okwori Blend.

GABON

In Q4 2008, most Gabonese crude sales were made in the first two weeks of each month and due to the falling oil price, the actual price realized was higher than the monthly average Dated Brent price for the period. This is the primary factor for the change in the Q4 2008 Gabonese average discount or premium compared to Q4 2007. Typically, crude from Maghena, Panthere NZE and Awoun has an average discount between approximately $2/bbl and $3/bbl and Remboué crude has an average discount between approximately $6/bbl and $7/bbl. Maghena, Panthere NZE and Awoun are all sold at prices based on Rabi light with a quality discount. Remboué sales prices are based on the average Dated Brent for the 5 day period after the lifting less a discount. Etame sales prices in a given month are based on that month's average Dated Brent less the relevant discount for either Rabi or Rabi light crude. The Etame sales contract for 2008 was awarded to another seller with a higher discount to Dated Brent than in 2007.

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 December 31, 2008 in Nigeria was 1,510 Mbbl compared with 681 Mbbl at December 31, 2007. Gabon had 513 Mbbl of inventory at December 31, 2008 compared to 199 Mbbl at December 31, 2007. The petroleum sales volumes, revenues and mixes are as set out in the tables below:

Petroleum Sales	**Revenues (US$ million)**		**Sales Volumes (MMbbl)**		**Volume (%)**	
	Three months ended					
(US$ million, MMbbl or %, as indicated)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Nigeria						
OML123	**255**	481	**5.4**	5.5	**43%**	44%
OML126	**184**	348	**3.7**	3.7	**30%**	29%
Subtotal - Offshore	**439**	829	**9.1**	9.2	**73%**	73%
OML124 - Onshore	**53**	84	**1.0**	1.0	**8%**	8%
Subtotal - Nigeria	**492**	913	**10.1**	10.2	**81%**	81%
Gabon						
Onshore	**108**	145	**2.0**	1.8	**15%**	14%
Offshore	**25**	49	**0.5**	0.5	**4%**	5%
Subtotal - Gabon	**133**	194	**2.5**	2.3	**19%**	19%
Total	**625**	1,107	**12.6**	12.5	**100%**	100%

Petroleum Sales	**Revenues (US$ million)**		**Sales Volumes (MMbbl)**		**Volume (%)**	
	Year ended					
(US$ million, MMbbl or %, as indicated)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Nigeria						
OML123	**1,940**	1,447	**20.9**	20.2	**43%**	43%
OML126	**1,472**	1,195	**15.1**	15.9	**31%**	34%
Subtotal – Offshore	**3,412**	2,642	**36.0**	36.1	**74%**	77%
OML124 - Onshore	**251**	225	**2.7**	2.9	**5%**	6%
Subtotal – Nigeria	**3,663**	2,867	**38.7**	39.0	**79%**	83%
Gabon						
Onshore	**718**	380	**7.6**	5.5	**16%**	12%
Offshore	**226**	165	**2.4**	2.3	**5%**	5%
Subtotal – Gabon	**944**	545	**10.0**	7.8	**21%**	17%
Total	**4,607**	3,412	**48.7**	46.8	**100%**	100%

Note: Percentages are calculated using un-rounded volumes.

Nigerian sales revenues declined in Q4 2008 by 44% compared to Q4 2007, but increased overall in 2008 compared to 2007 by 35%, primarily due to the movement in the oil price. The average realized oil price in Q4 2008 was 45% ($40.77/bbl) lower than prices in Q4 2007 whereas the overall 2008 average realized oil price was 28% ($20.94/bbl) higher than the 2007 year. Oil commodity prices increased significantly during the first half of 2008 and subsequently fell in the later half of the year where they have remained in the low to mid $40/bbl range.

Gabonese sales revenues declined in Q4 2008 compared to Q4 2007 by 31% given the lower average oil price of 39% ($32.25/bbl) which was somewhat offset by higher volumes in Q4 2008. Gabonese annual sales revenues rose by 73% given the higher oil prices, during the first three quarters of 2008, of 35% ($24.12/bbl) relative to 2007 compounded by a 28% increase in Gabonese sales volumes.

Please refer to the ‘Production’ section for a discussion on volumes and the ‘Crude Oil Marketing’ section for an analysis of prices.

Royalties

Royalties	Three months ended		Year ended	
	31-Dec	31-Dec	**31-Dec**	31-Dec
(US$ millions)	**2008**	2007	**2008**	2007
Nigeria – OML123/OML124				
Royalty Oil	**25**	43	**169**	130
Government share of Profit Oil	**28**	46	**200**	131
Other	**34**	56	**104**	100
Royalties – Nigeria OML123/124	**87**	145	**473**	361
Nigeria – OML126				
Royalty Oil	**10**	19	**74**	62
Government share of Profit Oil	**10**	23	**84**	68
Other	**4**	12	**54**	45
Royalties – Nigeria OML126	**24**	54	**212**	175
Gabon - Onshore				
Royalty Oil	**10**	11	**60**	25
Government share of Profit Oil	**17**	(12)	**29**	(30)
Other	**2**	2	**9**	7
Royalties – Gabon onshore	**29**	1	**98**	2
Gabon - Offshore				
Royalty Oil	**5**	6	**35**	25
Government share of Profit Oil	**10**	6	**29**	21
Other	**--**	1	**3**	2
Royalties – Gabon offshore	**15**	13	**67**	48
Total	**155**	213	**850**	586
Royalties as a percentage of sales revenue by location:				
Nigeria total	**23%**	22%	**19%**	19%
OML123/124	**28%**	26%	**22%**	22%
OML126	**13%**	16%	**14%**	15%
Gabon total	**33%**	7%	**17%**	9%
Onshore	**27%**	1%	**14%**	1%
Offshore	**60%**	26%	**30%**	29%
Royalties/bbl :				
Nigeria total	**10.97**	19.67	**17.71**	13.77
OML123/124	**13.67**	22.41	**20.06**	15.62
OML126	**6.35**	14.85	**14.04**	11.07
Gabon total	**17.78**	5.85	**16.35**	6.43
Onshore	**14.94**	0.53	**12.72**	0.45
Offshore	**28.30**	23.14	**28.04**	20.64
Total	**12.30**	17.08	**17.43**	12.54

Note: Per barrel amounts are calculated using un-rounded figures

In Nigeria, royalties are comprised of Royalty Oil, Government share of Profit Oil, and Other which includes Niger Delta Development Corporation ("NDDC") levy, Education Tax, and a Cost Penalty Arrangement. For the Okwori field, in OML126, Other Royalties also includes a profit share royalty paid to a previous license holder under a farmout agreement which was fully accrued for at Q3 2008. Profit Oil is the amount remaining after deducting royalties, production costs and taxes and is shared between Nigeria National Petroleum Corporation's ("NNPC") and Addax Petroleum on a sliding scale based on monthly production. The average total royalties as a percentage of sales in Nigeria have remained relatively constant compared to 2007 on a quarterly and annual basis.

In Gabon, royalties include Royalty Oil, Government share of Profit Oil and Other which is comprised of contributions, as per the PSC, for the Domestic Market Obligation tied to consumption needs of the Gabonese domestic market and the Hydrocarbon Support Fund created for the purpose of developing petroleum research in Gabon. The Government share of Profit Oil represents any Profit Oil payments in excess of corporate taxes calculated at the Gabonese statutory rate of 35%. Royalty Oil is levied based on incremental rates applied to production volumes, in accordance with each license's PSC.

Gabon onshore Royalty Oil as a percentage of revenues has remained relatively consistent compared to 2007, quarterly and annually. The Government share of Profit Oil is based on taxable income and in 2007 the onshore licenses had carry forward capital expenditure balances (i.e., cost pools) which had not been fully deducted for tax purposes, as deductibility is capped based on production volumes according to the PSCs. In Q1 2008, Maghena fully deducted its carry forward cost pool balances subsequently causing the Government Share of Profit Oil to increase (i.e., more Profit Oil payable given lower deductions available). This increase in the Government Share of Profit Oil caused the Royalties to sales percentages and per barrel amounts in the above table to increase in 2008 compared to 2007. The Other royalties in Gabon onshore properties have increased annually however are consistent on a quarterly basis as these levies move primarily with sales revenues.

Gabon offshore Royalty Oil as a percentage of revenues in Q4 2008 increased compared to Q4 2007 because Royalty Oil is determined in the production month, rather than the month sold. Inventory levels for Etame grew early in the quarter and were sold later in the quarter while the average sales price had fallen. Annually, Royalty Oil remained relatively constant at approximately 15% compared to 2007. The offshore Government Share of Profit Oil as a percentage of revenues has increased quarterly due to lower revenues offset by higher tax deductible costs available during the quarter. This increase caused the Royalties to sales percentages and per barrel amounts in the above table to increase in 2008 compared to 2007. This amount increased annually due to higher revenue in 2008 compared to 2007.

Operating Expenses

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

Operating Expenses	**Three months ended**		**Year ended**	
(US$ millions)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Nigeria				
OML123/124	**65**	46	**231**	163
OML126	**5**	18	**64**	71
Total – Nigeria	**70**	64	**295**	234
Gabon				
Onshore	**32**	22	**102**	65
Offshore	**4**	3	**19**	15
Total – Gabon	**36**	25	**121**	80
Total	**106**	89	**416**	314
Per barrel sold (US$/bbl)				
Nigeria total	**6.86**	6.25	**7.61**	6.01
OML123/124	**10.09**	7.03	**9.77**	7.04
OML126	**1.29**	4.89	**4.24**	4.50
Gabon total	**14.75**	10.51	**12.05**	10.18
Onshore	**16.41**	11.89	**13.29**	11.71
Offshore	**8.62**	6.03	**8.12**	6.58
Total	**8.40**	7.07	**8.53**	6.70

Note: Per barrel amounts are calculated using un-rounded figures

In general, given the trend of rising oil prices until mid-2008, the greater demand for associated equipment and services pushed up related costs. As a result of the current global financial crisis and recent falling oil prices, the oil industry has begun to cut back or delay certain capital intensive projects, which may in turn lead to less demand and lower costs. Addax Petroleum attempts to manage operating costs through competitive bidding, long term contracts and, of recent, renegotiation of current contract terms, where possible.

Costs in OML123/124 increased by $19 million in Q4 2008 ($3.06/bbl) compared to Q4 2007 and by $68 million ($2.73/bbl) annually primarily due to:

(a) Well workovers of $13 million were expensed in 2008 related to maintenance and safety, whereas there were minimal costs in 2007. There were no material workover expenses during Q4 2008 nor Q4 2007;

(b) The Naira appreciated 7% against the US$ from 2007 to 2008. This increased operating expenses by $11 million in 2008 compared to 2007. There has been minimal difference in the foreign exchange rate on a quarterly basis;

(c) Higher personnel costs were incurred to support the growing production levels and operations;

(d) Additional vessels at higher rates were required to address safety and security concerns and higher customs charges and rates for the FPSO and a Temporary Production Unit were incurred of $7 million in the quarter and $15 million on a year-to-date basis; and

(e) Drag reducer to minimize pipeline pressure on certain wells and increase production by approximately 2 Mbbl/d which cost $2 million in the quarter and $9 million annually.

Costs in OML126 have decreased by $13 million in Q4 2008 compared to Q4 2007 and by $7 million annually as staff spent more of their time on OML123/124 development drilling operations and less on OML126 operations during 2008. Furthermore, topside modifications made to the FPSO, costing approximately $13 million, previously classified as operating costs were capitalized in Q4 2008.

Gabon's Q4 2008 operating costs have increased compared to Q4 2007 by $11 million or $4.24/bbl and annually by $41 million or $1.87/bbl. Vessel and pipeline transportation rates have increased during 2008 by $10 million. As reported in the 2007 annual MD&A, the shared Coucal pipeline (operated by a third-party) has had various shut downs since Q2 2007 due to difficulties with the pumping-heating equipment resulting in restrictions on Addax Petroleum's production. In order to counter such restrictions, Addax Petroleum applied wax control chemicals for improving oil quality and also invested in additional heater and pumping equipment ($6 million) which have led to a partial lifting in the restrictions. Furthermore, staff numbers working in Gabon have increased significantly to support the growing operations and amended labour laws requiring additional leave entitlements and training costs have led to increased expenditures as compared to the prior year.

Operating Netbacks

Operating netbacks is not a Generally Accepted Accounting Principles ("GAAP") measure. It represents the per barrel pre-tax profit margin associated with the production and sale of crude oil and it 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	**Three months ended**		**Year ended**	
(US$/bbl)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Nigeria - OML123/124				
Average Realized Sales Price	**48.80**	87.13	**92.62**	72.36
Royalties	**(13.67)**	(22.41)	**(20.06)**	(15.62)
Net Sales	**35.13**	64.72	**72.56**	56.74
Operating Expenses	**(10.09)**	(7.03)	**(9.77)**	(7.04)
Operating Netback, before tax - OML123/124	**25.04**	57.69	**62.79**	49.70
Nigeria - OML126				
Average Realized Sales Price	**49.37**	94.45	**97.52**	75.39
Royalties	**(6.35)**	(14.85)	**(14.04)**	(11.07)
Net Realized Sales Price	**43.02**	79.60	**83.48**	64.32
Operating Expenses	**(1.29)**	(4.89)	**(4.24)**	(4.50)
Operating Netback, before tax - OML126	**41.73**	74.71	**79.24**	59.82
Nigeria - TOTAL				
Average Realized Sales Price	**49.01**	89.78	**94.53**	73.59
Royalties	**(10.97)**	(19.67)	**(17.71)**	(13.77)
Net Sales	**38.04**	70.11	**76.82**	59.82
Operating Expenses	**(6.86)**	(6.25)	**(7.61)**	(6.01)
Operating Netback, before tax - Nigeria	**31.18**	63.86	**69.21**	53.81
Gabon - Onshore				
Average Realized Sales Price	**51.65**	80.66	**93.56**	69.07
Royalties	**(14.94)**	(0.53)	**(12.72)**	(0.45)
Net Sales	**36.71**	80.13	**80.84**	68.62
Operating Expenses	**(16.41)**	(11.89)	**(13.29)**	(11.71)
Operating Netback, before tax - Gabon Onshore	**20.30**	68.24	**67.55**	56.91
Gabon - Offshore				
Average Realized Sales Price	**46.48**	89.48	**94.56**	71.11
Royalties	**(28.30)**	(23.14)	**(28.04)**	(20.64)
Net Sales	**18.18**	66.34	**66.52**	50.47
Operating Expenses	**(8.62)**	(6.03)	**(8.12)**	(6.58)
Operating Netback, before tax - Gabon Offshore	**9.56**	60.31	**58.40**	43.89
Gabon - TOTAL				
Average Realized Sales Price	**50.48**	82.73	**93.80**	69.68
Royalties	**(17.78)**	(5.85)	**(16.35)**	(6.43)
Net Sales	**32.70**	76.88	**77.45**	63.25
Operating Expenses	**(14.75)**	(10.51)	**(12.05)**	(10.18)
Operating Netback, before tax - Gabon	**17.95**	66.37	**65.40**	53.07
Total Addax				
Average Realized Sales Price	**49.28**	88.46	**94.38**	72.94
Royalties	**(12.30)**	(17.08)	**(17.43)**	(12.54)
Net Sales	**36.98**	71.38	**76.95**	60.40
Operating Expenses	**(8.40)**	(7.07)	**(8.53)**	(6.70)
Total	**28.58**	64.31	**68.42**	53.70

In Nigeria, operating netbacks decreased in Q4 2008 from Q4 2007 by $32.68/bbl (51%) and increased by $15.40/bbl (29%) annually. This change is primarily a result of the lower average realized sales prices (45%) in Q4 2008 compared to Q4 2007 but higher prices (28%) annually. In Gabon, operating netbacks in Q4 2008 were $48.42/bbl (73%) lower than during Q4 2007 and $12.33/bbl (23%) higher annually. These changes are also primarily related to the variance in the average sales price in the quarter and annually as well as higher Government share of Profit Oil in royalties.

Depreciation, Depletion & Amortization

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

Proved reserves used to calculate Depletion, Depreciation and Accretion ("DD&A") are based on the estimate of proved reserves, as evaluated by NSAI, Addax Petroleum's qualified, independent reserves evaluator (see Addax Petroleum's AIF for the Statement of Reserves and other oil and gas data). The reserves as at December 31, 2008 have been used as a basis for Q4 2008 depletion whereas Q1 to Q3 2008 were based on the reserves report as at December 31, 2007.

DD&A	**Three months ended**		**Year ended**	
(US$ millions, unless otherwise stated)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Depletion				
Nigeria	**103**	94	**388**	418
Gabon	**55**	36	**175**	141
Total Depletion	**158**	130	**563**	559
PER BARREL SOLD ($/bbl):				
Nigeria	**10.16**	9.19	**10.04**	10.73
Gabon	**22.60**	15.21	**17.42**	17.98
Total Depletion	**12.59**	10.34	**11.56**	11.94
Accretion of asset retirement obligation				
Nigeria	**3**	3	**8**	7
Gabon	**1**	--	**4**	2
Total Accretion	**4**	3	**12**	9
Depreciation				
Corporate and Other	**4**	2	**16**	13
Total Depreciation	**4**	2	**16**	13
Total	**166**	135	**591**	581

Note: Per barrel amounts are calculated using un-rounded figures

In Nigeria, depletion increased by $0.97/bbl (11%) in Q4 2008 compared with Q4 2007 and decreased by $0.69/bbl (6%) annually. The quarterly increase was partially due to a reduction in proved reserves in the December 31, 2008 reserve report as well as higher development drilling costs. Annually, depletion is lower than 2007 given the relatively strong increase in proved reserves at the end of 2007 which carried into depletion calculations for the first three quarters of 2008.

The Gabon depletion per barrel increased by $7.39/bbl (49%) compared to Q4 2007 and decreased by $0.56/bbl (3%) annually. The quarterly increase was due to a reduction in proved reserves in the December 31, 2008 reserve report as well as additional development costs associated with the proved reserves. Annual depletion has decreased compared to 2007 due to increases in proved reserves at the end of 2007 which carried into depletion calculations for the first three quarters of 2008.

There was no impairment required under the ceiling test, as required to be tested annually under Canadian GAAP AcG-16 *Oil and Gas Accounting – Full Cost*. This test was based on the December 31, 2008 reserve report, as evaluated by NSAI which used a forecast price between $56.29/bbl to $106.62/bbl over the economic life of the reserves. Further information regarding forecast prices and cost assumptions can be found in Addax Petroleum's AIF dated March 4, 2009.

Corporate Expenses

Corporate expenses include items that do not relate to the operation of individual production streams. Shown below are general and administrative ("G&A") 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 finance expenses.

Corporate Expenses	**Three months ended**		**Year ended**	
	31-Dec	31-Dec	**31-Dec**	31-Dec
(US$ millions, unless otherwise stated)	**2008**	2007	**2008**	2007
General and administrative	**13**	6	**39**	31
G&A per barrel sold	**1.06**	0.52	**0.81**	0.67
Pre-acquisition and other expenses				
New venture costs - Nigeria	**1**	6	**5**	9
New venture costs - Other	**--**	1	**13**	8
Other expense	**--**	14	**7**	14
Total pre-acquisition and other expenses	**1**	21	**25**	31
Share-Based Compensation	**7**	7	**40**	36
Earnings per share impact ($/basic share)	**0.04**	0.05	**0.25**	0.23
Finance Expenses				
Interest	**23**	27	**86**	98
Foreign exchange (gain) loss	**(12)**	5	**(18)**	6
Other income	**(3)**	--	**(5)**	(4)
Total finance expenses	**8**	32	**63**	100
Total	**29**	66	**167**	198

Note: Per barrel amounts are calculated using un-rounded figures

GENERAL AND ADMINISTRATIVE

G&A costs increased during Q4 2008 by $7 million compared to Q4 2007 and by $8 million annually partly as a result of strengthening corporate centre technical teams in order to better support the growing operations. Furthermore, there were additional costs related to professional services, such as internal controls compliance testing.

PRE-ACQUISITION AND OTHER EXPENSES

Pre-acquisition expenses relate to costs from Addax Petroleum's new venture activity prior to Addax Petroleum acquiring rights to a license and these costs are charged to net income. Pre-acquisition costs include seismic data purchases, studies (in-house and external) and consulting fees. Expenditures in 2008 were related to pre-acquisition costs associated with the Iroko, OPL227, Gryphon Marin and Sangaw North license acquisitions and reviews of other potential new ventures or license acquisitions during the first half of 2008. Management has been reassessing its capital budget as a result of the global financial crisis and new venture work was cut back during Q4 2008. Other expenses include bank charges, bank fees, unrealized gains or losses resulting from the mark-to-market valuation of the interest rate swap derivatives entered into during Q3 2008 and Q4 2008 and foreign exchange forward contracts. Furthermore, the recovery of an insurance claim was received and included in other expenses during Q4 2008 for approximately $6 million.

SHARE-BASED COMPENSATION

Addax Petroleum has awarded common shares to officers and other employees as part of a long-term incentive program ("LTIP"). Share awards vest equally over a three year period beginning on the grant date. The fair value of common shares granted under the LTIP is determined based on the trading price of the common shares on the date of the grant and is amortized to share compensation expense over the vesting period.

The following shares have been granted under the LTIP:

	Grant date	**Total Shares granted**	**Non-vested shares at 31-Dec. 2008**
LTIP 2006	August 2006	608,897	-
LTIP 2007	August 2007	1,056,678	333,292
LTIP 2008	August 2008	1,057,419	695,976

The Q4 2008 charge relates to the amortization of the share-based compensation plans and is consistent with the comparative quarter.

FINANCE EXPENSES

The interest expense in Q4 2008 decreased compared to Q4 2007 by $4 million or 15% as interest rates were lower during Q4 2008 than Q4 2007.

Income Taxes

Income taxes in Nigeria and Gabon are levied pursuant to the PSCs which govern each property and are affected by fluctuations in prevailing world oil prices, actual operating costs and the amount and timing of capital expenditures. The applicable income tax rate for Addax Petroleum's Nigerian operations is 60% of taxable profit which is calculated as revenues less royalties, non-capital costs, capital depreciation and an investment tax allowance. The corporate income tax rate in Gabon is 35%. Addax Petroleum does not currently incur income taxes in Canada.

Current and Future Income Taxes	**Three months ended**		**Year ended**	
(US$ millions)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Current Income Taxes				
Nigeria				
OML123/124	**(23)**	125	**608**	437
OML126	**20**	155	**544**	488
Total – Nigeria	**(3)**	280	**1,152**	925
Gabon				
Onshore	**13**	33	**166**	83
Offshore	**5**	12	**53**	35
Total – Gabon	**18**	45	**219**	118
Other	**1**	--	**2**	2
Total	**16**	325	**1,373**	1,045
Future Income Taxes				
Nigeria				
OML123/124	**102**	95	**279**	190
OML126	**48**	4	**147**	16
Total	**150**	99	**426**	206

Addax Petroleum pays government profit oil, petroleum profit tax and royalties in Nigeria through government liftings taken-in-kind and with cash in Gabon.

The current income taxes in OML123/124 have decreased by 118% in Q4 2008 compared to Q4 2007 and increased by 39% annually. The current taxes moved into a recovery position in December 2008 as the oil price decreased, thus taxable revenues were lower but tax deductible capital expenditures had significantly increased. However, for the first three quarters of 2008, there were higher sales revenues without an equivalent increase in tax deductible drilling and facility costs causing income taxes to rise.

Current income tax for OML126 decreased by 87% in Q4 2008, compared to Q4 2007, and increased 11% annually. Given the lower average oil prices in Q4 2008 compared to Q4 2007 and increasing capital costs, the tax expense was significantly lower in Q4 2008. On an annual basis, oil prices were higher for most of the year resulting in higher income taxes compared to 2007.

Gabon taxes are considered to be paid through the Government of Gabon's share of Profit Oil and current tax expenses represent the portion of Profit Oil equivalent to 35% of profit before income taxes for producing properties. Onshore current tax decreased in Q4 2008 by 61% compared to Q4 2007 and increased 100% annually. The lower sales price in the current quarter resulted in lower current taxes compared to the comparative quarter whereas on an annual basis, current tax is higher due to higher annual sales revenue without a proportionate increase in operating costs.

Gabon offshore taxes decreased 58% in Q4 2008 compared to Q4 2007 as a result of the falling oil price in Q4 2008 compared to Q4 2007. Offshore taxes increased 51% annually because of rising sales revenues without the equivalent increase in deductible expenditures.

The future income taxes in OML123/124 increased in Q4 2008 by 7% compared to Q4 2007 and 47% annually due to the increase in capital intangible and facility expenditures which are deductible earlier for tax purposes than for accounting purposes and give rise to temporary differences. The future income taxes on OML126 rose in Q4 2008 compared to Q4 2007 by $44 million and by $131 million annually due to significantly higher capital expenditures during 2008. These capital expenditures relate primarily to Okwori development wells and facilities as well as the exploration costs in OML137 which are not yet depleted as they are non-producing but can be deducted for tax purposes from revenue earned in OML126. As a result, temporary differences increased giving rise to higher future income taxes.

There are no future income taxes for Gabon because taxes are covered through the Government of Gabon's share of Profit Oil with which temporary differences are not associated.

Addax Petroleum's income tax filings are subject to audits by taxation authorities. Audits are in progress relating to prior years with items under review, some of which may increase the tax liability. In addition, notices have been filed objecting to certain issues. While the results of these items cannot be ascertained at this time, Management believes that adequate accruals have been made for income taxes based on available information related to both Nigeria and Gabon operations. Included in the 2008 figures are accruals for NNPC audit findings currently under discussion, provisions for later years still to be audited by NNPC, and a Federal Board of Inland Revenue administration proceeding.

There is a pending administrative proceeding 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. Addax Petroleum's Management believes it is adequately accrued for in both current tax and royalties should any additional liabilities emerge.

The industry is coming under greater pressure to justify recovery of costs by the Nigerian authorities. As approvals from the Nigerian authorities are taking longer to obtain, Addax Petroleum's ability to recover costs is at risk as long as it explores and develops aggressively in Nigeria. Mitigating actions have been enacted including protective audits, discussions with authorities for approvals of cost recovery and direct requests to senior levels of administration in the government.

Fair Value of Financial Assets

The earnings impact associated with changes in the fair value of Addax Petroleum's available-for-sale investment is recorded as other comprehensive income. During Q4 2008, an unrealized loss of $27 million was recognized in other comprehensive income with nil in both the quarterly and annual comparative periods.

Capital Expenditures

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	Three months ended		Year ended	
	31-Dec	31-Dec	**31-Dec**	31-Dec
(US$ millions)	**2008**	2007	**2008**	2007
Nigeria				
OML123/124				
Exploration and appraisal	**27**	12	**33**	42
Development drilling	**89**	142	**410**	401
Facilities	**140**	56	**294**	139
Other	**(14)**	(2)	**15**	11
Capital Expenditure - OML123/124	**242**	208	**752**	593
OML126/137				
Exploration and appraisal	**1**	23	**61**	82
Development drilling	**71**	1	**202**	58
Facilities	**7**	4	**65**	10
Other	**3**	3	**10**	6
Capital Expenditure - OML126/137	**82**	31	**338**	156
Other Nigeria				
Okwok - Other	**1**	2	**4**	9
OPL291 - Exploration and appraisal	**24**	1	**26**	2
OPL227 - Exploration and appraisal	**--**	--	**13**	--
Other	**(1)**	--	**5**	--
Capital Expenditure - Other Nigeria	**24**	3	**48**	11
Total Capital Expenditure - Nigeria	**348**	242	**1,138**	760
Gabon				
Exploration and appraisal	**10**	4	**17**	13
Development drilling	**29**	37	**167**	117
Facilities	**76**	32	**176**	72
Subtotal – Onshore Producing Gabon	**115**	73	**360**	202
Exploration and appraisal	**4**	3	**7**	6
Development drilling	**3**	--	**7**	1
Facilities	**2**	2	**21**	7
Subtotal – Offshore Producing Gabon	**9**	5	**35**	14
Other Gabon - Exploration and appraisal	**13**	--	**67**	--
Total Capital Expenditure - Gabon	**137**	78	**462**	216
Other Regions / Properties				
Cameroon - Exploration phase	**7**	7	**64**	15
JDZ Blocks 1, 2, 3 and 4 - Exploration phase	**3**	5	**21**	92
Taq Taq - Exploration and appraisal	**25**	20	**49**	83
Sangaw North - Exploration and appraisal	**7**	--	**37**	--
Other - Corporate	**4**	--	**5**	6
Total Capital Expenditure - Other	**46**	32	**176**	196
Total	**531**	352	**1,776**	1,172

Capital Expenditure by Activity 2008 year end	Property Acquisition	Exploration and Appraisal	Development: Drilling	Development: Facilities	Development: Other	Total
Nigeria						
OML123/124	--	33	410	294	15	**752**
OML126/137	--	61	202	65	10	**338**
Okwok	--	--	--	--	4	**4**
Other Nigeria	13	26	--	--	5	**44**
Total Nigeria	**13**	**120**	**612**	**359**	**34**	**1,138**
Gabon						
Onshore, producing	--	17	167	176	--	**360**
Offshore, producing	--	7	7	21	--	**35**
Other, non-producing	31	36	--	--	--	**67**
Gabon	**31**	**60**	**174**	**197**	**--**	**462**
Other Regions / Properties						
Cameroon	3	61	--	--	--	**64**
JDZ Blocks	--	21	--	--	--	**21**
Sangaw North	30	7	--	--	--	**37**
Taq Taq	--	49	--	--	--	**49**
Other (Corporate)	--	--	--	--	5	**5**
Total Other	**33**	**138**	--	--	**5**	**176**
Total Capital Expenditure	**77**	**318**	**786**	**556**	**39**	**1,776**

With the high price of crude oil during most of 2008, the demand for oil industry services and equipment remained high, thus increasing capital costs. Given the current global market crisis, oil industry demand may decline thus leading to potential future reductions in costs. Addax Petroleum aims to manage costs through competitive bidding procedures, the use of long-term contracts and through efforts to renegotiate contracts at lower market prices, where possible, given the current financial climate and lowered industry demand.

Total capital expenditures were $179 million or 51% higher in Q4 2008 compared with Q4 2007 and $604 million or 52% larger annually. Capital expenditures were above the original 2008 budget of $1.6 billion, excluding acquisition funds, due primarily to accelerated expenditures on gas flares down and additional marine support requirements necessary to complete offshore projects working under difficult weather and security environments. The increase compared to 2007 was primarily due to the Adanga platform facilities in OML123, central processing facility in the Panthere NZE license, onshore Gabon, construction of the pipeline to the Rabi facility, onshore Gabon, as well as Gabon and Cameroon exploration and appraisal drilling. Overall, there was an increase in the total number of drilling rigs in operation from nine in Q4 2007 to twelve in Q4 2008.

Property acquisition costs of $77 million relate to the following:

(a) Iroko shallow offshore Cameroon license ($3 million) - 100% acquisition in April 2008;

(b) OPL227 shallow offshore Nigerian license ($13 million) - 40% interest in June 2008;

(c) Iris Marin shallow offshore Gabon license ($3 million) - additional 18% working interest in June 2008, costs relate to the reimbursement of past costs;

(d) Sangaw North Kurdistan license ($30 million) – 33.33% interest in September 2008; and

(e) Gryphon Marin license ($28 million) - 50% interest in September 2008 and additional 18.75% interest in December 2008.

Certain 2007 comparative amounts have been reclassified to be consistent with their classification in Addax Petroleum's audited consolidated financial statements for the year ended December 31, 2008.

NIGERIA

In Nigeria, capital expenditures increased $106 million or 44% in Q4 2008 compared to Q4 2007 and $378 million or 50% annually. In Q4 2008, development drilling expenditures of $160 million were incurred for three development wells (14 annually), one water injection well (four annually), and one gas injection well (one annually). The exploration and appraisal costs represent two exploration wells (two annually) and one appraisal well (seven annually). There remained five rigs operating in Q4 2008, consistent with Q4 2007. OML123/124 development wells were primarily in the Oron West, Ossu and Izombe fields to maintain production levels. There were also facilities costs associated with the Adanga platforms and Oron pipeline during Q4 2008.

GABON

In Gabon, Q4 2008 capital expenditures increased by $59 million or 76% from Q4 2007 and $246 million or 114% annually. The majority of the increase related to onshore Gabon for the installation of a Central Processing Facility on the Panthere NZE license, construction on a new export pipeline south of the Coucal Terminal to the Rabi trunk line facility for onshore operations and the installation of facilities at the Koula field in the Awoun license which is expected to start production during 2009. During 2008, Addax Petroleum also completed a 2D seismic acquisition campaign on the Maghena license as well as on the Epaemeno license, a non-producing license.

The offshore facility costs relate to the Ebouri development platform in the Etame license which is expected to commence production in 2009.

During Q4 2008, there were three appraisal wells drilled (three annually) and one exploration well drilled (three annually) in Gabon. The North Ebouri appraisal well drilled in the Etame license successfully appraised a gross oil column of 21 feet in the Gamba formation. Two pilot holes were drilled in the main area of the Ebouri field successfully delineating the Gamba sandstone formation above the oil water contact, thereby expanding the areal extent of the Ebouri field. A horizontal development well on the same orientation as the second pilot hole has been completed, and initial production commenced in early 2009. The remaining two exploration wells drilled earlier in 2008 were drilled in the Iris and Themis licenses; Themis has since been relinquished. All costs relating to the well completion failure in mid-2008 have been capitalized and for which there is an insurance claim of approximately $12 million being pursued.

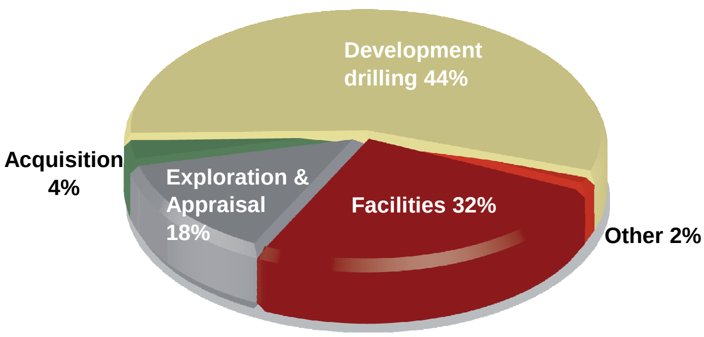
OTHER

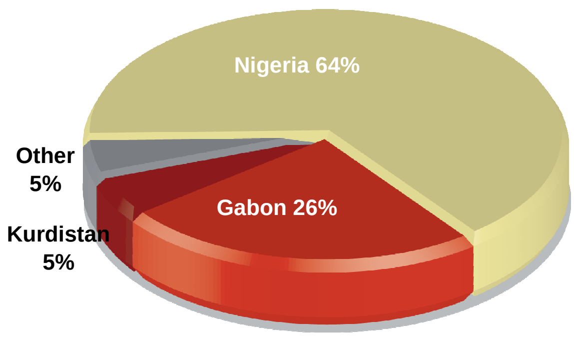
Cameroon exploration expenditures of $64 million during 2008 relate to two exploration wells, a sidetrack in the Ngosso license and an additional exploration well and seismic acquisition in the Iroko license. In Ngosso, the two exploration wells were plugged and abandoned as dry, however the sidetrack established a gross hydrocarbon column of 79 feet and may be developed in the future together with existing oil discoveries in the overall field development program. A 3D seismic survey was also commenced in Q4 2008. The exploration well in the Iroko license, acquired during 2008, encountered hydrocarbons and Addax Petroleum is currently evaluating core, pressure and wireline data.

The JDZ Blocks 1, 2, 3 and 4 continued to incur costs during 2008 related to seismic interpretation and reprocessing work, as well as drilling engineering and well planning for the anticipated drilling campaign.

In Kurdistan, the costs incurred in the Taq Taq license during 2008 relate to the preparations for early production and the commissioning of a new rig which arrived in mid-2008. Costs incurred in the Sangaw North license are primarily related to its acquisition in 2008.

There was intermittent Turkish military action during 2008 in the border region between Turkey and the Kurdistan Region of Iraq. The situation is under constant review by management.





Major Capital Projects Going Forward

Addax Petroleum's major capital projects going forward are discussed below:

NIGERIA

In Nigeria, the major planned upcoming capital expenditure relates to the Adanga North Horst and Oron West developments with associated water injection facilities in OML123. Also, a field development program is planned to be progressed in the Kita Marine field and front end engineering design furthered in the Antan field. In OML124, further appraisal will be made on the Njaba oil discovery and in OML126, continued development is expected in the Okwori and Nda fields.

Addax Petroleum believes the combination of oil discoveries in Ofrima North (OML137) are sufficient to provide for development and it intends to work closely with relevant Nigerian government agencies on plans for development. Addax Petroleum also plans additional exploration and appraisal drilling at Ofrima North and the surrounding area.

GABON

In Gabon, the major capital projects relate to the further development of the Tsiengui and Obangue fields in the onshore Maghena and Panthere NZE licenses, including a centralized gas compression facility. A new export line is being constructed to the Shell Rabi facility for start-up in early 2009. There is also the development of the Koula field in the Awoun license, which has a planned start-up of Q3 2009 and the Etame license is developing the Ebouri field for tie-in during early 2009.

Funds Flow From Operations ("FFFO")

The components of FFFO are set out as follows:

Funds Flow From Operations ("FFFO")	**Three months ended**		**Year ended**	
	31-Dec	31-Dec	**31-Dec**	31-Dec
(US$ millions, unless otherwise stated)	**2008**	2007	**2008**	2007
Net income	**3**	180	**784**	482
Adjustments for non-cash items:				
Future income taxes	**150**	99	**426**	206
DD&A	**166**	135	**591**	581
Share-based compensation	**7**	7	**40**	36
Convertible bond interest accretion	**(5)**	(1)	**11**	6
Foreign exchange (gain) loss	**3**	5	**(2)**	6
Other	**(7)**	3	**--**	(4)
FFFO	**318**	428	**1,850**	1,313
Changes in non-cash working capital	**(100)**	(127)	**(329)**	(571)
Cash Flows from Operating Activities	**218**	301	**1,521**	742
FFFO per share ($/basic share)	**2.03**	2.75	**11.86**	8.45
FFFO per diluted share ($/diluted share)	**1.97**	2.67	**11.49**	8.31

FFFO decreased by $110 million or 26% in Q4 2008 compared with Q4 2007, primarily due to the decrease in sales revenues given the falling oil price in Q4 2008. FFFO increased by $537 million or 41% in 2008 compared to 2007 given higher annual revenues for which operating and corporate expenses did not increase to the same extent. The 2008 diluted FFFO per share effect results from the convertible bonds and the non-vested share based compensation.

Changes in Working Capital and Capital

The following table shows the working capital and capital structure of Addax Petroleum for the past eight quarter ends.

Capital Structure (US$ millions)	31-Dec 2008	30-Sep 2008	30-Jun 2008	31-Mar 2008	31-Dec 2007	30-Sept 2007	30-Jun 2007	31-Mar 2007
Accounts receivable	**365**	402	435	460	321	276	187	153
Income taxes and royalties receivable	**291**	189	38	140	79	50	14	--
Inventories	**248**	193	188	159	129	139	162	104
Prepaid expenses	**36**	53	55	39	39	52	37	41
Accounts payable and accrued liabilities	**(756)**	(528)	(588)	(519)	(554)	(473)	(345)	(372)
Income taxes and royalties payable	**(153)**	(196)	(199)	(160)	(112)	(152)	(190)	(397)
Deferred revenue	**(4)**	--	(5)	(8)	(10)	--	--	--
Total non-cash working capital	**27**	113	(76)	111	(108)	(108)	(135)	(471)
Cash and cash equivalents	**76**	88	201	107	32	82	71	93
Total net working capital	**103**	201	125	218	(76)	(26)	(64)	(378)
Long-term debt	**1,200**	1,025	910	1,125	950	1,025	950	975
Convertible bonds	**255**	253	250	247	245	242	239	--
Shareholders' equity	**2,452**	2,482	2,229	1,946	1,714	1,534	1,400	1,247

Addax Petroleum's total net working capital has reverted from a deficit at Q4 2007 of $76 million to a surplus of $103 million at Q4 2008. The main reason relates to the higher inventory levels at the end of December 31, 2008 which will be sold during Q1 2009.

Addax Petroleum's long-term debt position has increased by $250 million as at December 31, 2008 compared to the prior year end mainly to finance the capital program which increased by $179 million compared to Q4 2007 and due to falling oil prices during Q4 2008 which led to Addax Petroleum being allocated insufficient Cost Oil barrels under the Nigerian PSCs through which to recover costs. Long-term debt is comprised of amounts drawn on the $1.3 billion senior secured reducing revolving loan facility and $500 million senior unsecured revolving loan facility.

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 **31-Dec 2008**	 31-Dec 2007	Year ended **31-Dec 2008**	 31-Dec 2007
Funds flow from operations	**318**	428	**1,850**	1,313
Decrease (increase) in non-cash working capital	**(100)**	(127)	**(329)**	(571)
Cash flows from operating activities	**218**	301	**1,521**	742
Net cash flows from investing activities	**(390)**	(264)	**(1,662)**	(1,110)
Net cash flows from financing activities	**160**	(87)	**185**	366
Change in cash and cash equivalents	**(12)**	(50)	**44**	(2)

Cash flows from operating activities decreased by $83 million Q4 2008 compared to Q4 2007 due to the lower FFFO and lower non-cash working capital. The most significant non-cash working capital item to change is in income taxes and royalties receivable and payable in Nigeria that resulted from a higher oil price estimate used to allocate crude oil between Addax Petroleum and the Nigerian Government than actually realized and the difference will be adjusted for in 2009. Furthermore, inventories have increased to higher levels at December 31, 2008. This trend was consistent during both the quarter and annually.

The net cash outflows from investing activities increased in Q4 2008 by $126 million or 48% compared to Q4 2007 as a result of higher capital expenditures in Nigeria offshore development drilling and facilities, as well as Gabon onshore facilities. The annual increase is also related to capital expenditures, mainly for Nigeria development drilling and Gabon facilities. Q4 2008 net financing cash flows have increased from Q4 2007 by $247 million due to proceeds from drawings on the long-term debt facilities. Net financing cash flows have decreased by $181 million annually, as there were convertible bonds issued in 2007 for proceeds of $294 million; however no similar instruments were issued in 2008.

Liquidity and Capital Resources

Addax Petroleum's principal source of liquidity has been funds flow from operations which has been supplemented as necessary by the senior debt facilities and convertible bonds. Addax Petroleum manages its liquidity risk by regularly monitoring its cash flows from operating activities, holding adequate amounts of cash and cash equivalents and utilizing its long-term debt facilities. The 2009 budget is planned to be funded from cash flow from operations and the long-term debt facilities provide additional flexibility for short-term timing fluctuations. Given certain work program commitments and contractual arrangements which cannot be changed in the short term, Addax Petroleum anticipates utilizing further debt financing from within existing committed facilities during the first half of 2009. Should the prevailing Brent Crude price continue to be below $60/bbl for the balance of 2009, Addax Petroleum intends to reduce capital expenditures such that total capital expenditures continue to be funded by internally generated cash flow. Addax Petroleum transacts with major international banks and does not anticipate any difficulty in accessing cash and cash equivalents or drawing against committed facilities as and when required. Addax Petroleum expects that this capital funding along with continued operational income will allow for currently planned short and long-term operations.

A $1,500 million senior secured debt facility, obtained during early 2007, was increased to $1,600 million later in 2007 and was partially used to re-finance the former acquisition bridge facility arranged in 2006 for the PanAfrican Energy Corporation (Mauritius) Ltd. ("PanAfrican") acquisition (Gabon operations). In April 2008, a two year senior, unsecured revolving credit facility bearing interest at the Lenders' LIBOR rate plus 2.90% was entered into at an original amount of $450 million and, in September 2008, was increased to $500 million as a result of oversubscription by participating financial institutions during the syndication process. This loan facility will be used for general operations, including additional funding capacity for acceleration or to increase capital expenditure projects and/or acquisition opportunities.

The convertible bonds issued in Q2 2007 for net proceeds of $294 million mature on May 31, 2012. The primary use of the funds was to reduce the long-term debt facility.

Provided applicable solvency and corporate requirements are satisfied, and other than standard foreign currency regulations, there are no material legal, practical or contractual 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. Addax Petroleum's long-term debt financing has standard covenants incorporated in the agreements. 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, gross crude oil production, operating costs and interest rates would have had on Addax Petroleum's net income for the year ended December 31, 2008, had these changes occurred on January 1, 2008. These calculations are based on business conditions, production and sales volumes existing for the current period. The 1,000 bbl/d increase has been pro-rated across producing licenses based on their proportion of overall sales.

Economic Sensitivities	Change (+)	Net Income impact (US$ millions)	Net Income impact ($ per basic share)
Average realized price	$10.00/bbl	138	0.88
Crude oil production	1,000 bbls/d	4	0.03
Increase in operating expenses	$1.00/bbl	(15)	(0.10)
Interest rate	1%	(10)	(0.07)

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 foreign exchange rates have not been considered in this analysis.

Outlook for 2009

In 2009, Addax Petroleum has budgeted total capital expenditures of approximately $1.6 billion (excluding acquisitions), which are expected to result in total production averaging between 140 Mbbl/d and 145 Mbbl/d. This budget is consistent with Addax Petroleum's philosophy of funding capital expenditures from internally generated cash flow and has been determined using the average Brent Crude price of $60/bbl. Should the prevailing Brent Crude price continue to be below $60/bbl for the balance of 2009, Addax Petroleum intends to reduce its capital expenditures such that total capital expenditures continue to be funded by internally generated cash flow. Given certain work program commitments and contractual arrangements which cannot be changed in the short term, Addax Petroleum anticipates utilizing further debt financing from within existing committed facilities during the first half of 2009. An average Brent Crude price of $40/bbl would result in a reduction of capital expenditures to approximately $1 billion and the associated reduced drilling and facilities expenditures would result in Addax Petroleum's total production for 2009 averaging between 132 Mbbl/d and 137 Mbbl/d.

In Nigeria, Addax Petroleum has budgeted capital expenditures of $1,007 million and expects its total production from Nigeria to average between 108 Mbbl/d and 112 Mbbl/d. Production levels are expected to be maintained or slightly increased as Addax Petroleum brings on stream production from the Oron West South and Adanga fields in OML123, together with sustaining production levels from the Okwori and Nda fields in OML126. In OML126, the development drilling campaigns in the Nda and Okwori fields are expected to continue. In OML124, the installation and commissioning of compressors at the Izombe flow station will contribute to flares down and field pressure maintenance. An average Brent Crude price of $40/bbl would result in a reduction of capital expenditures to approximately $450 million in Nigeria and that the associated reduction on drilling and facilities spending would result in total production in Nigeria averaging between 100 Mbbl/d and 104 Mbbl/d for 2009.

In Gabon, Addax Petroleum has budgeted capital expenditures of $425 million and expects its total production to average between 31 Mbbl/d and 34 Mbbl/d in 2009. Development drilling in the Addax Petroleum operated Obangue field, onshore Gabon will continue followed by the completion of the pipeline to Shell's Rabi facility which will remove export capacity restrictions and is expected to commence in Q2 2009. New production from the Koula field, Awoun license and the Ebouri field, Etame license is expected to commence during 2009. An average Brent Crude price of $40/bbl would result in a reduction of spending to approximately $400 million, with no change to previous production guidance for 2009 in Gabon.

In the Taq Taq field in the Kurdistan Region of Iraq, work is budgeted to continue expanding capacity of the early production system at Taq Taq from 30 Mbbl/d capacity to 60 Mbbl/d. Limited sales of crude oil to the local markets will continue during the year and efforts are ongoing to secure relevant agreements and permissions to commence the export of crude oil to the international markets. An average Brent Crude price of $40/bbl would result in a reduction of spending to approximately $75 million in the Kurdistan Region of Iraq.

The 2009 base case budget prepared assuming an average Brent oil price of $60/bbl is presented in the table below:

Capital Expenditure by Activity 2009 Capital Budget	Exploration and Appraisal	Development			Total
		Drilling	Facilities	Other	
Nigeria					
OML123/124	23	327	115	27	**492**
OML126/137	112	222	156	4	**494**
Okwok	--	--	--	4	**4**
Other Nigeria	17	--	--	--	**17**
Total Nigeria	**152**	**549**	**271**	**35**	**1,007**
Gabon					
Onshore	42	172	151	--	**365**
Offshore	44	13	3	--	**60**
Gabon	**86**	**185**	**154**	**--**	**425**
Other Regions / Properties					
Cameroon	36	--	--	--	**36**
JDZ Blocks	35	--	--	--	**35**
Sangaw North	27	--	--	--	**27**
Taq Taq	9	--	57	--	**66**
Other	--	--	--	4	**4**
Total Other	**107**	--	**57**	**4**	**168**
Total Capital Expenditure	**345**	**734**	**482**	**39**	**1,600**

The capital expenditure budget of $1.6 billion provides for exploration and development including drilling of six rig years with operated rigs:

- 1.5 rig years operations for offshore OML123;
- One rig year for OML126/137;
- 0.5 rig year in Kurdistan for exploration; and
- Three rig years in onshore Gabon.

In addition there is planned:

- Three exploration rigs (two operated) for Gabon and Cameroon offshore wells;
- One deepwater rig for the first well in the JDZ; and
- 0.5 rig year in Kurdistan for the Sangaw North exploration well.

The exploration and appraisal budget work program includes 12 wells, comprised of three in Nigeria, five in Gabon, one in Cameroon, one in the JDZ and two in the Kurdistan Region of Iraq. Also included are seismic surveys at OPL291 in Nigeria, at Ngosso in Cameroon, and both onshore and offshore Gabon.

The development drilling budget includes 54 wells, comprised of 23 oil production wells in Nigeria (18 at OML123 and five at OML126, both offshore) and 31 in Gabon (five oil production wells and two gas / water injection wells at Maghena, 18 oil production and four gas / water injection wells at Panthere NZE and two oil production wells at Etame).

The development facilities budget includes production infrastructure and associated water injection facilities development for the Oron, Adanga North, Kita Marine, and Antan fields in OML123, as well as infrastructure to progress flares-down in OML123 and continued Okwori and Nda tie-ins in OML126. It also includes production infrastructure for the Tsiengui, Obangue and Koula fields onshore Gabon, including completing a new southern export pipeline from Coucal to Rabi.

Should the prevailing Brent Crude price continue to be below $60/bbl for the balance of 2009, Addax Petroleum intends to reduce its capital expenditures such that total capital expenditures continue to be funded by internally generated cash flow. An average Brent Crude price of $40/bbl would result in a reduction of capital expenditures to approximately $1 billion.

Contractual Obligations and Commitments

Addax Petroleum assumes various contractual obligations and commitments in the normal course of operations and financing activities. These obligations and commitments as at December 31, 2008 are set out in the table below.

Contractual obligations and commercial commitments (US$ millions)	Within one year	From 1 to 5 years	More than 5 years	Total
Long term debt	--	1,200	--	1,200
Operating leases[1]	48	140	35	223
Purchase obligations[2]	112	--	--	112
Exploration obligations[3]	15	79	--	94
Other long-term obligations[4]	458	75	--	533
Total	**633**	**1,494**	**35**	**2,162**

Notes:

[1] Operating leases are primarily for the FPSOs and the Temporary Production Unit in Nigeria.

[2] Purchase obligations relate to commitments under contracts, such as christmas trees, completion contracts, gas compressors and maintenance contracts, mainly in OML126, Maghena and Panthere NZE licenses.

[3] Exploration obligations are defined in the PSCs and relate to the Awoun, Epaemeno, Kiarsseny, Etame, Taq Taq, Sangaw North, JDZ Blocks 3 and 4, and OPL291.

[4] Other long-term obligations relate to various long term rig and barge charters in Nigeria and Gabon.

Purchase obligations, exploration obligations and other long-term obligations are capital costs in nature and will be met out of current operating activities. The Nigerian PSCs for producing properties have a term of twenty years expiring in May 2018. The Gabonese PSCs for producing properties have initial terms of ten years which may be renewed for two subsequent five year terms leading to expiry dates between 2015 and 2021. If agreements to renew the PSCs are not reached, the operators' interests under them will expire, however, both the governments of Nigeria and Gabon have been cooperative with prudent operators to renew PSCs prior to expiry.

Contingent Liabilities

Addax Petroleum's income tax filings are subject to audits by taxation authorities. There are audits in progress and items under review, some that may increase the tax liability. In addition, notices have been filed objecting to certain issues. While the results of these items cannot be ascertained at this time, it is believed that there have been adequate accruals for income taxes in current and prior periods based on available information.

Asset Retirement Obligation & Environmental Liabilities

Addax Petroleum carries an asset retirement obligation for each country in which it operates to fund the restoration of the production site once extraction is completed. The estimated decommissioning costs include onshore and offshore facilities and wells drilled at the time the report was prepared by assessing the feasibility, logistical difficulties and safety using the latest technology at the lowest cost. Addax Petroleum expects to fund this obligation and committed capital investments from a combination of cash flow and drawings from the senior secured revolving debt facility. The increase in the asset retirement obligation of $45 million or 35% from 2007 relates to a combination of wells drilled and facilities constructed during 2008 as well as to rising costs.

Asset retirement obligations	Year ended	
(US$ millions)	**31-Dec 2008**	31-Dec 2007
Asset retirement obligations		
Nigeria	**113**	95
Gabon	**58**	33
Kurdistan Region of Iraq	**4**	2
Total	**175**	130

Addax Petroleum also continued to work in 2008 to ensure that it would be able to cease gas flaring in OML124 and OML126 and is currently working with NNPC's National Petroleum Investment Management Services ("NAPIMS") on a plan for the cessation of gas flaring in OML123. Addax Petroleum has committed considerable resources towards ceasing gas flaring, has worked diligently throughout 2008 to extinguish its part of the flare and still expects to be in a position to cease natural gas flaring in the first half of 2009 for OML124 and OML126.

Risk Management

Addax Petroleum has published its assessment of its business risks in the 'Risk Factors' section of its AIF (available on SEDAR at www.sedar.com). It is recommended that this document be reviewed for a thorough discussion of risks faced by Addax Petroleum.

Addax Petroleum is exposed to a number of risks inherent in the exploration for, development and production of oil and gas. If any of the risks or uncertainties described below actually occurs, Addax Petroleum's business prospects, results of operations or financial condition could be materially adversely affected. The oil and gas operations involve a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The operations of Addax Petroleum in certain developing countries, such as Nigeria, Cameroon, Gabon and the Kurdistan Region of Iraq expose Addax Petroleum to potential civil unrest and political risks. In particular, escalations of civil unrest in Nigeria and 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 manages its 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. Although Addax Petroleum does not currently anticipate the need to access financing, there can be no assurance in the current market conditions that debt financing will be readily available. In addition, if revenues or reserves decline, there will be less capital available to undertake or complete future drilling programs. Addax Petroleum may utilize derivative financial instruments, such as foreign exchange contracts and interest rate swaps, to manage certain exposures. These financial instruments are not used for trading or speculative purposes. Addax Petroleum has not historically held nor currently plans to hold investments in asset-backed commercial paper. In Q3 2008, Addax Petroleum entered into a two year interest rate swap with monthly payment dates and in Q4 2008, Addax Petroleum entered into an additional two year interest rate swap with quarterly payment dates. Each of these swap transactions were on $250 million (total $500 million) of Addax Petroleum's long-term debt in order to offset fluctuations in the LIBOR rate on its long-term debt. These contracts have not been designated as hedges for accounting purposes as the swap transaction has regular settlements which naturally offset the interest expense on the long-term debt. Unrealized gains and losses on the fair value of the interest rate swap derivative are recorded with pre-acquisition and other expenses.

Credit

Credit risk is the risk of economic loss arising when a counterparty fails to meet its obligations as they come due. During initial joint venture agreement negotiations and ratification, credit risk is 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. Credit risk on trade receivables from non-related parties is managed through dealing with creditworthy counterparties, typically international banks, publicly traded international oil and gas companies for which financial information is readily available for review and is monitored on an ongoing basis. The maximum exposure to credit risk is equal to the carrying amount of financial instruments classified as loans and receivables and cash and cash equivalents.

Commodity Price

Addax Petroleum's business, results of operations or financial condition and future growth are substantially dependent on the prevailing prices for its petroleum production. Historically, the markets for petroleum have been volatile and such markets are likely to continue to be volatile in the future. Prices for oil are based on world supply and 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 price of oil, 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 to commercial markets, and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and many other aspects of the oil business. Addax Petroleum does not hedge any of its sales or production. Any substantial decline in oil prices may also require Addax Petroleum to write down certain of its assets as under Canadian GAAP, the net capitalized cost of oil and gas properties may not exceed a "ceiling limit", which is based, in part, upon the estimated future net cash flows from reserves. There were no write downs required in 2008 under the ceiling impairment test.

Foreign Currency

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

Currently, Addax Petroleum holds foreign exchange forward contracts to manage its exposure to foreign currency risk with respect to the Swiss franc against the US dollar. These contracts are held because Addax Petroleum incurs costs in CHF in respect of its service office based in Switzerland while the majority of its revenues are in US dollars. Gains or losses on foreign exchange forward contracts are included in pre-acquisition and other expenses. Addax Petroleum does not consider changes in the exchange rate between CDN$ and US$ as significant due to the low number of transactions denominated in CDN$ and, therefore, does not mitigate this risk with financial instruments.

BUSINESS RISK

Addax Petroleum is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil. 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. 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.

With key operations in certain developing countries, Addax Petroleum could be exposed to the potential inability to obtain additional prospect or development licenses due to the highly competitive and political bidding processes in these areas.

Find, Develop and Acquire additional reserves

Addax Petroleum's future oil reserves and production, and therefore its cash flows and earnings, are highly dependent upon developing and increasing its current reserve base. 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 are also risks typically associated with oil operations, including premature decline of reservoirs and invasion of water into producing formations. Oil and natural gas exploration may involve unprofitable efforts, including dry wells as well as productive wells that do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Costs For Oil & Gas Services and Equipment

Due to high global demand, the cost of oil field services and goods increased significantly in recent years as compared to prior years, and remains high notwithstanding the reduction in oil prices in the second half of 2008. This can lead to delays in exploration and appraisal programs as well as an overall increase in the operating and depletion costs per barrel. Management endeavours to regularly review costs and negotiate reasonable terms in supply contracts.

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, monitoring operational compliance and advising 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.

Ongoing intermittent Turkish military action in the border region between Turkey and the Kurdistan Region of Iraq continued throughout 2008. The situation is under constant review by Management and TTOPCO.

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 and local country office relations. These dealings aim towards an ethical and positive working relationship.

The industry is coming under greater pressure to justify the recovery of costs by the Nigerian authorities. As approvals from the Nigerian authorities are taking longer to obtain, Addax Petroleum's ability to recover costs is at risk as long as it explores and develops aggressively in Nigeria. Mitigating actions have been enacted including protective audits, discussions with authorities for approvals of cost recovery and direct requests to senior levels of administration in the government.

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 Gabon operations and appraisal activities in the Kurdistan Region of Iraq, it has diversified its locations.

Criminal or Terrorist Actions

Oil and gas companies operating in countries such as Nigeria, Gabon, Cameroon and Iraq may be targets of criminal or terrorist actions. Criminal or terrorist action against Addax Petroleum, its properties or facilities could have a material adverse effect on Addax Petroleum's business, results of operations or financial condition. In addition, the possible threat of criminal or terrorist actions against Addax Petroleum could have a material adverse effect on the ability of Addax Petroleum to raise capital or to adequately staff its operations or could substantively increase the costs of doing so. In February 2008, an on-duty police officer was shot and killed and two Addax Petroleum employees were robbed at gunpoint during an incident at an apartment compound in Lagos. In June 2008, two contractor support vessels were intercepted by pirates while supporting Addax Petroleum operations in OML123 and OML126, resulting in the deaths of one Nigerian Naval personnel and one contractor. In December 2008, a contractor support vessel was boarded by pirates and three contractors were kidnapped. They were subsequently released. Also in December 2008, a contractor support vessel was attacked by pirates near OML123. During the attack the captain was killed. While Addax Petroleum regards each of these incidents as isolated events that it believes are not indicative of the quality of its relationships with the local communities, no assurance can be given that similar incidents will not occur in the future.

Operations Risk – Oil & Gas Operations

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. 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.

Environment

All aspects of the oil and gas industry are subject to extensive national, state and local environmental laws and regulations in jurisdictions in which Addax Petroleum operates including 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. The Nigerian government has announced what is commonly referred to as "Flares Down", a policy that will require petroleum producers to reduce or eliminate the amount of natural gas that is flared in petroleum production. To date, the Nigerian Government has not enacted any legislation implementing the policy. Consequently, no assurances can be given that Addax Petroleum will be able to comply with any such future legislation.

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, as required. 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.

Off-Balance Sheet Arrangements

Addax Petroleum has no off-balance sheet arrangements that have, or are reasonably likely to have, a 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, except the following:

(a) Operating leases are used in the normal course of business as disclosed in Contractual Obligations and Commitments.

(b) As at December 31, 2008, there were outstanding letters of credit amounting to $129 million, relating to the $300 million letter of credit tranche of the senior secured debt facility.

Besides potential future PSC acquisitions which typically incur letters of credit over the PSC minimum work commitment, Addax Petroleum is not planning to engage in any other off-balance sheet arrangements in the foreseeable future.

Subsequent Events

A dividend of CDN$0.10 per share was declared on March 3, 2009, payable on April 2, 2009 to shareholders of record on March 19, 2009. In accordance with Canada Revenue Agency Guidelines, dividends paid by Addax Petroleum during the period were eligible dividends.

Shareholder's Equity and Outstanding Share Data

Outstanding Share Data	**Three months ended**		**Year ended**	
(millions)	**31-Dec 2008**	31-Dec 2007	**31-Dec 2008**	31-Dec 2007
Common Shares Outstanding				
Beginning of period	**157**	156	**156**	155
Issued	**--**	--	**1**	1
End of Period	**157**	156	**157**	156
Weighted average basic common shares outstanding	**157**	156	**156**	155
Weighted average diluted common shares outstanding	**158**	162	**163**	156

There have been no conversions of the convertible bonds since their issuance in 2007. The maximum number of shares that could be converted if certain conditions are met is 5,929,234. There are no stock options outstanding or any other securities convertible into common shares. The convertible bonds were anti-dilutive in Q4 2008 but dilutive for the full 2008 year.

As at December 31, 2008 AOG Holdings BV held a 35.3% interest in Addax Petroleum, which is consistent with its holdings at the date of this MD&A.

On August 1, 2008, 879,114 common shares vested and were issued to employees under the LTIP program. These shares represent the third and last tranche of the 2006 LTIP, the second tranche of the 2007 LTIP and the first tranche of the 2008 LTIP. In December 2008, a further 14,250 common shares vested and were issued to employees hired subsequent to the August 2008 issuance. Refer to 'Corporate Expenses' for further details on the LTIP program.

Critical Accounting Estimates

The consolidated financial statements include the accounts of Addax Petroleum and all of its subsidiaries. The consolidated financial statements have been prepared by Management in accordance with Canadian GAAP.

The preparation of financial statements in accordance with Canadian 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 bonds' liability and equity values and estimated life were 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 material.

Critical Accounting Policies

Refer to note 2 of the audited consolidated financial statements as at December 31, 2008 for a full description of Addax Petroleum's significant accounting policies.

ASSET RETIREMENT OBLIGATIONS

Addax Petroleum recognizes 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 independent and internal engineering and environmental studies for each well or facility. 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 Addax Petroleum's proportionate share of assets, liabilities, revenues and expenses from its 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.

PRODUCTION SHARING CONTRACTS

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

PROPERTY, PLANT AND EQUIPMENT

Addax Petroleum follows the full cost method of accounting for oil and natural gas exploration and development activities whereby all costs associated with exploring for and developing oil and natural gas reserves are capitalized on a country by country cost centre basis. Such costs include expenditures on acquiring exploration and development licenses, land acquisition, geological and geophysical activities, drilling and testing both productive and non-productive wells and acquiring and developing oil and natural gas reserves in place. 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 the independent reservoir engineers. 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.

REVENUE RECOGNITION

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

New Accounting Pronouncements

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

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

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

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

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

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

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

EFFECT OF FUTURE CHANGES IN ACCOUNTING STANDARDS

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

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

Effective January 1, 2011, Section 1601, *Consolidated Financial Statements* establishes standards for the preparation of consolidated financial statements and *will* replace the existing Section 1600, *Consolidated Financial Statements*. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1602, *Non-Controlling Interests.*

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, ("Section 3064") replacing Sections 3062, *Goodwill and Other Intangible Assets* ("Section 3062") and Section 3450, *Research and Development Costs*. Various changes have been made to other standards to be consistent with Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, Addax Petroleum will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. Addax Petroleum is currently evaluating the impact of the adoption of Section 3064 on its consolidated financial statements; however, it is not expected that the adoption will have a material impact on the consolidated financial statements.

Effective January 1, 2011, Section 1602, *Non-controlling Interests* establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1601, *Consolidated Financial Statements.*

IFRS

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

A steering committee has been formed, including the CFO and senior members of the financial accounting, legal and internal audit teams. This committee determines the internal and external communication plan, monitors the conversion process as well as discusses and resolves issues. The Board of Director's Audit Sub-Committee has been involved throughout this process and has accepted the IFRS conversion plan presented by Management. Each quarter, the plan's status and progress is reviewed with the Audit Sub-Committee with any issues addressed for resolution.

A changeover plan has been developed with the following key elements:

Key Activity	Milestones	Effort Accomplished by December 31, 2008
Financial Statement Preparation		
Identification of differences in Canadian GAAP/IFRS accounting policies and choices Selection of entity's continuing IFRS policies Selection of IFRS 1 policy choices Financial statement format, including alternative performance measurements Changes in note disclosure Quantification of IFRS 1 disclosures for 2010	Ready for commencement of 2011 financial year Quantification of effects of change for IFRS 1 disclosures and comparative 2010 financial statements including note disclosure by end of Q3 2010 (exclusive of Q3 2010 results)	Identification of differences and significant accounting policy choices identified [(1)]
Infrastructure: IFRS expertise		
IFRS expertise identification and development at all levels (including board level)	Ready for conversion beginning of 2010	Expert resources [(2)] / training program commenced
Infrastructure: Information technology	Ready for parallel processing of 2010 general ledger	Scoping completed and parallel ledger set-up commenced [(3)]
Business Policy Assessment		
Financial covenants and practices	Communication with financing institutions to clarify whether covenants require modification for IFRS results	Initial assessment commenced and Management does not expect a significant impact on credit covenants
Control Environment: ICFR and DC&P	Update CEO/CFO certification process by end of 2010	Scoping completed

Notes:

[(1)] Through the diagnostic analysis, Addax Petroleum identified property, plant and equipment ("PP&E"), DD&A and future income tax to be the primary areas of difference for Addax Petroleum. Other differences, which are less significant, have also been identified and evaluated. A comprehensive recalculation of the depletion and future income tax position was conducted under various IFRS compliant policies. Alternatives between accounting policies, clarification on their application and other issues were addressed throughout 2008 by the Addax Petroleum finance team. Key policy decisions being evaluated are whether to use a successful effort or modified full cost policy for PP&E, whether to deplete PP&E using proven or proven plus probable reserves and whether to retrospectively apply IFRS 3 Business Combinations to the 2006 acquisition of PanAfrican. These policy decisions will primarily affect PP&E, DD&A and goodwill. Other significant decisions relate to the definition of Cash Generating Units and Operating Segments and the option to early adopt IAS 23 Borrowing Costs to capitalize interest on qualifying expenditures. Addax Petroleum is also reviewing IFRS 1 transition exemptions.

Under IFRS, investment tax credits are accounted for differently than under Canadian GAAP creating a significant difference in PP&E and DD&A. Under Canadian GAAP, the pre-tax amount is deducted from PP&E, thereby reducing its net book value and DD&A. Under IFRS these investment tax credits are not deducted from PP&E but recognized over the same depletion basis as the corresponding PP&E asset. The result is higher PP&E, higher DD&A and lower future income tax under IFRS.

[(2)] Addax Petroleum's auditors have been involved throughout the process and are expected to continue to be involved through the duration of the convergence project.

(3) The accounting information system is flexible and allows the required information to be extracted for IFRS disclosures.

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in securities legislation, and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2008, an evaluation of the design and effectiveness of Addax Petroleum's DC&P was carried our under the supervision of, and with the participation of Addax Petroleum's management including its certifying officers. Based on that evaluation, Addax Petroleum's certifying officers concluded that the design and operation of Addax Petroleum's DC&P were effective as at December 31, 2008 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 during the period in which the annual filings were prepared, and that information required to be disclosed by Addax Petroleum would be recorded, processed, summarized and reported within the time periods specified in the applicable securities legislation.

Internal Controls over Financial Reporting

Internal Controls over Financial Reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As at December 31, 2008, an evaluation of the design and effectiveness of Addax Petroleum's internal controls over financial reporting ("ICFR") was carried out under the supervision of, and with the participation of Addax Petroleum's management including its certifying officers. This evaluation included confirmation of the control framework used to design the ICFR. Based on that evaluation, Addax Petroleum's certifying officers concluded that the design and operation of Addax Petroleum's ICFR were effective as at December 31, 2008 and would provide reasonable assurance that material weaknesses in ICFR would be made known to them, and reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Changes in Internal Controls over Financial Reporting

During the year ended December 31, 2008, Addax Petroleum changed its financial information systems for its Gabonese subsidiaries to align them with systems currently used by other companies in the group. These changes were implemented to improve operational effectiveness and efficiency. The amendments to processes and resources modifications have resulted in a material change to Addax Petroleum's ICFR.

Management has designed and implemented controls to ensure that financial information has been accurately reviewed and recorded.

Other than as described above, there has not been any other change in Addax Petroleum's ICFR during the year ended December 31, 2008, that has materially affected or that is reasonable likely to materially affect, Addax Petroleum's ICFR.

Transactions with Related Parties

Addax Petroleum has entered into transactions with related parties under the agreements 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");
- Remboué Crude Oil Supply Term Contract;
- Management Services Agreement;
- Bunkering Agreement;
- Agreement for Services of Jean Claude Gandur;
- 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 related parties:

Related Party Transactions	**Three months ended**		**Year ended**	
	31-Dec	31-Dec	**31-Dec**	31-Dec
(US$ millions)	**2008**	2007	**2008**	2007
Sales to Addax Energy and ABV:				
Nigeria	**296**	417	**1,709**	1,002
Gabon	**5**	54	**17**	179
Charges from Addax Energy, ABV and other related entities:	**18**	18	**73**	49
Total	**283**	453	**1,653**	1,132

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 Energy S.A. ("Addax Energy") and Addax B.V. ("ABV") are both subsidiaries of AOG specializing in crude oil and product trading. In 2008, Addax Energy purchased Addax Petroleum's entitlement of crude oil from OML123, OML124, OML126 and Remboué pursuant to the Crude Oil Supply Agreements and it is the sole marketer of the Nigerian crude oil production. Prior to the Crude Oil Supply Agreements with Addax Energy, this oil was sold by Addax B.V. under Crude Oil Supply Agreements. Addax Energy and previously, ABV were chosen to market this crude oil due to their experience in the local market and due to their competitive rates. All crude oil produced from OML123/124 and OML126 is sold on the same terms and conditions as with non-related customers and is measured at the exchange amount as part of the normal course of operations. Crude oil sold to Addax Energy from the Remboué license is a continuation of trading prior to the PanAfrican acquisition and is on a non-related customer basis and measured at the exchange amount in the normal course of operations. ABV was awarded the contract to market the Etame crude oil for 2007 following a bidding process with a number of crude traders; however, this contract expired December 31, 2007 and a third party offtaker was contracted for the 2008 program.

Charges from Addax Energy, ABV and other related entities include management services, trademark license and information technology support to AOG Advisory Services Ltd. Also included are charges from Addax Bunkering Services for the purchase of fuel for the Addax Petroleum FPSO vessels and other marine support vessels. All transactions with these related parties are recorded at amounts agreed to by the parties and are made on the same terms and conditions as with non related customers during the normal course of operations.

Sales to Addax Energy decreased in Q4 2008 compared to sales to ABV in Q4 2007 by $170 million as a result of lower sales prices in Q4 2008. During Q4 2007, ABV sold oil for both the Etame and Remboué licenses in Gabon, whereas it only sold for Remboué in 2008.

Summary of Quarterly Results

The following is a summary of quarterly results for Addax Petroleum for the eight most recently completed quarters. Addax Petroleum reports in accordance with Canadian GAAP.

Quarterly Information *(US$ million, unless* otherwise stated)	**31-Dec 2008**	30-Sep 2008	30-Jun 2008	31-Mar 2008	31-Dec 2007	30-Sept 2007	30-Jun 2007	31-Mar 2007
Financial:								
Petroleum sales before royalties	**625**	1,335	1,493	1,154	1,107	925	753	627
Net income	**3**	248	293	240	180	122	101	79
Earnings per share ($/basic share)	**0.02**	1.59	1.88	1.54	1.16	0.78	0.65	0.51
Earnings per share ($/diluted share)	**0.02**	1.55	1.83	1.51	1.15	0.78	0.65	0.51
Funds Flow From Operations	**318**	539	524	469	428	335	287	263
FFFO per share ($/basic share)	**2.03**	3.45	3.37	3.02	2.75	2.15	1.85	1.70
FFFO per share ($/diluted share)	**1.97**	3.30	3.24	2.86	2.67	2.07	1.82	1.70
Weighted average number of shares outstanding (millions)	**157**	156	156	156	156	155	155	155
Capital expenditures, net of dispositions	**531**	536	369	340	352	343	261	216
Operational:								
Average working interest gross oil production (mbbls/d):								
Nigeria	**113.1**	103.6	105.5	109.7	111.4	104.5	104.1	97.9
Gabon	**29.4**	27.7	27.4	29.4	24.8	23.7	18.9	18.2
Total	**142.5**	131.3	132.9	139.1	136.2	128.2	123.0	116.1

Except for Q4 2008, there has been a general upward trend of increasing sales over the quarters resulting from a combination of increased production in both Gabon and Nigeria and rising oil prices. This growth has also contributed to the rise in net income, but is partially offset by increased operating costs, DD&A and taxes corresponding with the increased volumes. As a result of current economic conditions, the commodity price fell significantly in Q4 2008 which, in turn lowered the quarter's petroleum sales, net income, earnings per share and FFFO. A lower oil price is expected to continue in the short term until the global markets stabilize and oil prices increase.

PETROLEUM SALES

Historically, Addax Petroleum has experienced increasing revenues due to production growth and rising oil prices. Nigeria and Gabon's production has increased fairly steadily and is expected to continue with additional development drilling and appraisal programs. Oil from the Maghena, Panthere NZE and Awoun license areas is transported through the third party operated Coucal pipeline facility. This pipeline imposed a production capacity restriction of 27 Mbbl/d during 2008, however as this limit was above actual production it did not constrain 2008 volumes, as it did in 2007 when the limit was lower. Furthermore, Addax Petroleum entered into an agreement with Shell Gabon to utilize its southern Rabi export route and it is constructing a 37 km pipeline which is expected to be operational in early 2009.

NET INCOME

The increase in net income until Q4 2008 was due primarily to a higher average sales price and production levels, partially offset by higher operating costs and taxes. Net income declined during Q4 2008 given the lower oil price and sales revenue. Management is engaging its staff to increase focus on cost efficiencies and reductions where possible in order to improve profitability and cash flow going forward.

FUNDS FLOW FROM OPERATIONS

The steady increase in FFFO from 2007 and into Q3 2008 was due primarily to sales volumes and prices increasing at a higher rate than operating costs.

CAPITAL EXPENDITURES

Under Addax Petroleum's growth strategy, capital expenditures have experienced a general increase during 2008. Facilities expenditures have increased in onshore Gabon for the pipeline being constructed to link to the Rabi facility as well as in OML126 for flowlines. Development drilling also continues to grow in most areas resulting in growing production levels.