



ADDAX PETROLEUM UK LIMITED

Addax Petroleum UK Limited
Company No. 08135892

Addax Petroleum UK Limited

Financial Statements

**For the period from July 10, 2012 to December
31, 2013**

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ADDAX PETROLEUM UK LIMITED

Company Information

Directors	Y ZHANG – appointed July 10, 2012 C XU – appointed July 10, 2012 J M WARRENDER – appointed September 4, 2013
Secretary	Jordan Company Secretaries Ltd
Company number	08135892
Registered office	20-22 Bedford Row London United Kingdom WC1R 4JS



ADDAX PETROLEUM UK LIMITED

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ADDAX PETROLEUM UK LIMITED

Directors' report

For the period from July 10, 2012 to December 31, 2013

(In thousands of US dollars)

The directors present their report and financial statements for the period July 10, 2012 to December 31, 2013.

Principal activities

Addax Petroleum UK Limited ("the Company") is an investment holding company and finance vehicle. The Company was created on July 10, 2012 for the purpose of holding and managing its 49% shareholding in a Joint Venture with Talisman Sinopec Energy UK Ltd based in Aberdeen. The assets are located in the North Sea.

Business review

For the period, the Company made a loss of US \$29,363. The revenue amounts to US \$13,408 for management services rendered. Finance costs of US \$24,088 were incurred relating to its shareholder advance received to finance the 49% acquisition of Talisman Sinopec Energy UK Ltd. As at December 31, 2013, the Company has four employees. The Company is not liable for UK corporation tax during this period. It is expected that the business will develop further leading to the increase of the workforce during the next financial period.

Risk assessment

The directors are monitoring the implications of Government and HSSE regulations on the North Sea assets. As there is little volatility in the United Kingdom, it is not envisaged that there are significant risks pertinent to its business however, the directors regularly receive information from external and internal sources and will take actions as appropriate to mitigate these. For further description of capital management and financial risk management, refer to note 23 of the financial statements.

Results and dividends

The results for the period and the Company's financial position at the end of the period are shown in the attached financial statements. No dividend is payable.

Directors

The directors who served the Company during the period were as follows:

Y ZHANG

C XU

J M WARRENDER

The directors had no interests in the shares of the Company at any time during the period.

Directors' indemnities

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the directors, to the extent permitted by the Companies Act 2006.

ADDAX PETROLEUM UK LIMITED

Directors' report

For the period from July 10, 2012 to December 31, 2013

(In thousands of US dollars)

Going Concern

The financial performance and position of the Company is described in the financial statements and notes on pages 9-29. Addax Petroleum Holdings Limited has provided financial support to enable Addax Petroleum UK Limited to meet its obligations as they fall due. As a result, the directors continue to adopt the going concern basis in preparing the financial statements.

Subsequent events

There were no events to disclose after the reporting period.

Auditor

Deloitte LLP has expressed its willingness to act as auditors in accordance with section s498 of the Companies Act 2006.

Information provided to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

On behalf of the Board

7.04.14
Date


Director's Signature

CHUANHUI XU
Director's Name



ADDAX PETROLEUM UK LIMITED

Directors' responsibilities

For the period from July 10, 2012 to December 31, 2013

(In thousands of US dollars)

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



ADDAX PETROLEUM UK LIMITED

Independent Auditor's Report to the Members of Addax Petroleum UK Limited

We have audited the financial statements of Addax Petroleum UK Limited for the period from 10 July 2012 to 31 December 2013 which comprise the Statement of income, the Statement of comprehensive loss, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss for the period (started on 10 July 2012) then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



ADDAX PETROLEUM UK LIMITED

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Will Eversden, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
7 April 2014



ADDAX PETROLEUM UK LIMITED

STATEMENT OF INCOME

For the period from July 10, 2012 to December 31, 2013

(In thousands of US dollars)

	Note	From July 10, 2012 to December 31, 2013
Other income	3	13,408
Administrative expenses	4	<u>(18,653)</u>
Operating loss		(5,245)
Finance costs	18	<u>(24,118)</u>
Loss before tax		(29,363)
Income tax expense	10	<u>-</u>
Loss for the period		<u>(29,363)</u>

STATEMENT OF COMPREHENSIVE LOSS

For the period from July 10, 2012 to December 31, 2013

(In thousands of US dollars)

	From July 10, 2012 to December 31, 2013
Loss for the period	<u>(29,363)</u>
Total comprehensive loss for the period	<u>(29,363)</u>



ADDAX PETROLEUM UK LIMITED

STATEMENT OF FINANCIAL POSITION

At December 31, 2013

(In thousands of US dollars)

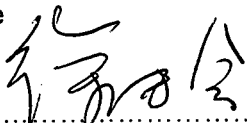
		At December 31, 2013
Assets	Note	
Non-Current Assets		
Property plant and equipment	11	612
Investments	12	1,069,358
Total non-current assets		<u>1,069,970</u>
Current Assets		
Trade receivables	14	97
Other current assets	15	11,680
Cash and cash equivalents	13	543
Total current assets		<u>12,320</u>
Total assets		<u><u>1,082,290</u></u>
Liabilities		
Current liabilities		
Trade and other payables	16	11,834
Total current liabilities		<u>11,834</u>
Non-current liabilities		-
Long term borrowings	19	1,099,818
Total Non-Current Liabilities		<u>1,099,818</u>
Total liabilities		<u><u>1,111,652</u></u>
Equity		
Ordinary shares	17	1
Retained deficit		(29,363)
		<u>(29,362)</u>
Deficit attributable to the equity holders of the parent		<u>(29,362)</u>
Total liabilities and equity		<u><u>1,082,290</u></u>



ADDAX PETROLEUM UK LIMITED

The financial statements were approved and authorised for issue by the Board signed on its behalf on

.....7.06.14.....
Date

..........
Director's Signature

.....(LIUANHUI) XU.....
Director's Name



ADDAX PETROLEUM UK LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD JULY 10, 2012 TO DECEMBER 31, 2013 (In thousands of US dollars)

	Note	Ordinary shares	Retained deficit	Total Equity
Balance at July 10, 2012		-	-	-
Loss for the period			(29,363)	(29,363)
Total comprehensive loss for the period		-	(29,363)	(29,363)
Issue of share capital	17	1	-	1
Balance at December 31, 2013		1	(29,363)	(29,362)

ADDAX PETROLEUM UK LIMITED

STATEMENT OF CASH FLOWS (In thousands of US dollars)

	Note	From July 10, 2012 to December 31, 2013
Cash flows from operating activities		
Receipt from related party for service rendered		496
Cash advances from Addax Group		2,341
VAT refund		1,002
Cash paid to suppliers and employees		(3,602)
<i>Net cash from/(used in) operating activities</i>		<u>237</u>
Cash flows from investing activities		
Investment in TSEUK, net of cash acquired		(1,069,358)
Payment of stamp duties		(5,393)
Purchase of property, plant and equipment		(640)
<i>Net cash from/(used in) investing activities</i>		<u>(1,075,391)</u>
Cash flows from financing activities		
Proceeds from the issue of share capital		1
Proceeds from long-term borrowings		1,075,730
Proceeds from Tiptop Energy Ltd		397,270
Payment of proceeds from Tiptop Energy Ltd to Talisman Finance (UK) Limited		(397,270)
<i>Net cash from/(used in) financing activities</i>		<u>1,075,731</u>
Net increase in cash and cash equivalents		577
Cash and cash equivalents at beginning of period		-
Effects of exchange rate changes on the balance of cash held in foreign currencies		(34)
Cash and cash equivalents at end of period	13	<u><u>543</u></u>

Significant non-cash transactions

During the period an interest expense of US\$24,088 was recorded in connection with the shareholders advance on its unsecured loan repayable by December 20, 2017.



ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

1 Principal Activities, Organisation and Basis of Preparation

a) Organisation

Addax Petroleum UK Limited "the Company" or "Addax Petroleum UK" is incorporated under the Companies Act 2006 as a private company. Its registered office address is 20-22 Bedford Row London WC1R 4JS United Kingdom.

The Company's direct parent and the lowest level at which a consolidation is prepared is Addax Petroleum Holdings Limited ("APHL"), a company incorporated in the British Virgin Islands under the BVI Business Companies Act 2004 (as amended).

b) Principal activities

Addax Petroleum UK is an indirect wholly-owned subsidiary of Sinopec International Petroleum Exploration and Production Corporation ("SIPC"), a Chinese state-owned entity.

The Company's principal activity is management of its 49% shareholding in a joint venture with Talisman Sinopec Energy UK Ltd based in Aberdeen.

c) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with full IFRS that comprise standards issued by the International Accounting Standard Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The Company has therefore early adopted IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS 28 (amended).

The Company has elected to record its investment in joint ventures using the cost method and has taken advantage of the exemption provided in paragraph 16 of IAS 27, Consolidated and Separate Financial Statements which dispenses it from the need to present consolidated financial statements as it is a wholly owned subsidiary of APHL. APHL IFRS consolidated financial statements are publicly available for the relevant period and a copy may be obtained by writing to: Addax Petroleum Limited (Geneva Branch), 16 Ave Eugène-Pittard, P.O. Box 265, 1211 Genève, Switzerland.

d) Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

IFRS 9	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
IFRIC 21	Levies
Amendments to IFRS 10, IFRS 12, and IAS 27	Investment Entities
Amendments to IAS 32	Financial Instruments Presentation: Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements in future periods.

The company has adopted the following standards which became effective during the year.

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of interests in Other Entities
IFRS 13	Fair Value
IAS 1	Other Comprehensive Income
IAS 19	Employee Benefits
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures

There has not been a material impact on the financial statements of Addax Petroleum UK as a result of the adoption of the standards.

2 Significant accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with IFRS. The historical cost basis has been used in the preparation of the financial statements, and explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in United States ("US") dollars. All tabular values are rounded to the nearest thousand dollars (US\$ thousand) except where otherwise indicated.

The principal accounting policies adopted by Addax Petroleum UK are set out below.

b) Estimation uncertainty

In application of Addax Petroleum UK's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial



ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

statements and the reported amounts of revenue and expenses during the year. The estimates and associated assumptions are based upon historical experience and other factors that are not readily apparent from other sources but management considered to be relevant. Actual results may differ from these estimates and the differences could be significant.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

c) Foreign currencies

The US dollar is the presentation and functional currency as it best reflects the underlying transactions, events and conditions for Addax Petroleum UK.

For the purposes of presenting financial statements, the assets and liabilities of Addax Petroleum UK's foreign operations are translated into US dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at exchange rates prevailing on the last day of the month prior to the date of the transaction unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated to US dollars at the rates prevailing at the end of each reporting period. Non-monetary items in a foreign currency that are measured in terms of historical cost are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash equivalents are stated at cost, which approximates fair value.

e) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortized cost less accumulated impairment losses for bad and doubtful debts. Trade and other receivables are derecognised if Addax Petroleum UK's contractual rights to the cash flows from these financial assets expire or if Addax Petroleum UK transfers these assets to another party without retaining control of substantially all risks and rewards of the assets.

f) Interests in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are recorded at cost.



ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

g) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

h) Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation.

i) Depreciation method

Depreciation is provided on a straight line method to write off the cost or valuation, less any residual value, of each asset evenly over its anticipated useful life as follows:

Asset	Life in years
Information systems	3
Furniture and office equipment	5

Residual value, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

j) Financial instruments

Financial assets and financial liabilities are recognised when Addax Petroleum UK becomes a party to the contractual provisions of the instrument. Addax Petroleum UK classifies its financial instruments into one of the following categories: held-for-trading (financial assets and financial liabilities), available-for-sale financial assets, loans and receivables, and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Financial instruments are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments (other than financial assets or financial liabilities held-for-trading) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments held-for-trading are recognised immediately in the profit or loss. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets and liabilities held-for-trading are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'finance income/costs' lines in the income statement.

Financial assets available-for-sale is subsequently re-measured to their fair value with changes in fair value recognised directly in equity, net of tax. All other categories of financial instruments are subsequently measured at their amortised cost using the effective interest rate method.



ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

Cash and cash equivalents and derivative instruments are classified as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and certain other assets that are financial instruments are classified as loans and receivables. Accounts payable and accrued liabilities, long-term debt and convertible bonds are classified as other financial liabilities.

k) Impairment of financial assets

Trade accounts receivable, other receivables and investments in equity securities that do not have a quoted market price in an active market, other than investments in associates and jointly controlled entities, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset and is recognised as an expense in the income statement. Impairment losses for trade and other receivables are reversed through the income statement if in a subsequent period the amount of the impairment losses decreases. Impairment loss for equity securities is not reversed.

l) Provisions and long term liabilities

Provisions are recognised when an entity in Addax Petroleum UK has a present obligation (legal or constructive) as a result of a past event, it is probable that Addax Petroleum UK will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for future decommissioning costs are initially recognised based on the present value of the future costs expected to be incurred in respect of dismantlement and abandonment costs at the end of oil and gas exploration and development activities.

ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist if Addax Petroleum UK has a contract under which the unavoidable costs of meeting its obligations under the contract exceed the economic benefits expected to be received from the contract.

m) Employee benefits

Wages, salaries, bonuses, cash based long term incentive programs and social security contributions are accrued in the period in which the associated services are rendered by employees. Payments to defined contribution retirement benefit plans are recognized as an expense when the employees have rendered service entitling them to the contributions.

n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Addax Petroleum UK's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3 Other income

**From July 10, 2012 to
December 31, 2013**

Management services rendered	13,408
	<u>13,408</u>

4 Administrative expenses

**Note From July 10, 2012 to
December 31, 2013**

The following amounts were expensed during the year:

Professional fees	5	(4,352)
Stamp duties	6	(5,393)
Employment costs	7	(2,216)
Management expenses relating to investment in TSEUK		(5,734)
Communication and information		(21)
Office expenses		(698)
Information systems & technology		(210)
Depreciation	11	<u>(28)</u>
		<u>(18,653)</u>

ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

5 Professional fees

	From July 10, 2012 to December 31, 2013
Audit work	44
Non audit work	53
Consultants	2,979
Management and technical support	1,277
	<u>4,352</u>

6 Stamp duties

Due to the acquisition of Talisman Sinopec Energy UK Ltd, a stamp duty amounting to US\$5,393 has been paid to the UK Tax Authority. The tax is calculated as 0.5% of the consideration paid for the shares.

7 Employment costs

	From July 10, 2012 to December 31, 2013
Wages and salaries	1,289
Social security costs	134
Other employment costs	720
Other pension costs	74
	<u>2,216</u>

The average number of persons employed by the Company during the period was two.

8 Compensation of key management

The remuneration of directors and other key members of management during the period were as follows:

	From July 10, 2012 to December 31, 2013
Short term employee benefits	394
Post employee benefits	21
Other long term benefits	42
	<u>457</u>

There is no compensation to directors in respect of loss of office.

ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

9 Employee future benefits

Addax Petroleum UK has non-contributory defined benefit and defined contribution pension plans providing pension and post-employment benefits to substantially all employees.

Defined benefit plans

Addax Petroleum UK operates a funded defined benefits plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits of a retirement age of 65 for men and 64 for women. No other post-retirement benefits are provided to these employees.

A pension fund cost of US\$54 has been accrued for future pension fund obligations and has been included in the general and administrative costs in the statement of income.

10 Income taxes

The Company was incorporated on July, 10 2012 when the effective UK income tax on profits was 24%. The Company is subject to income tax on profits at a rate of 23% from April 2013 to December 2013. Due to more than one tax year in the period, a hybrid rate of 23.27% is applied.

**Period from July 10,
2012 to December
31, 2013**

Factors Affecting Total Tax Charge for the Current Period

The charge for the year can be reconciled to the loss per the income statement as follows:

Loss for the period - continuing operations	(29,363)
Tax on loss at standard UK rate of 23.27%	(6,833)
Effects of:	
Expenses not deductible	1,430
Fixed asset timing differences	6
Losses	5,397
Tax charge for the period	-

No deferred tax asset is recognised with respect to the tax losses due to the uncertainty that these can be utilised in a future period.

ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

11 Property, plant and equipment

	Furniture and fittings	Total
Cost		
Opening cost at July 10, 2012	-	-
Additions	640	640
Closing cost at December 31, 2013	640	640
Accumulated depreciation		
Opening balance at July 10, 2012	-	-
Depreciation	(28)	(28)
Closing balance at December 31, 2013	(28)	(28)
Opening carrying value at July 10, 2012	-	-
Closing carrying value at December 31, 2013	612	612

12 Investments

Name	Country of incorporation	Equity interest	Principal activities
Talisman Sinopec Energy UK Ltd	UK	49%	Oil & Gas - North Sea

On December 17, 2012 Addax Petroleum UK entered into an agreement with Talisman Columbia Holdco Limited to purchase a 49% non-operated equity interest in Talisman Energy UK Ltd based in Aberdeen. The transaction is in the form of a joint arrangement in particular a joint venture. Talisman Energy UK Ltd subsequently changed its name to Talisman Sinopec Energy UK Ltd.

The Company's principal activity is management of its 49% shareholding in this joint venture.

13 Cash and cash equivalents

The Company's US\$543 cash and cash equivalents consist of a non-restricted cash balance held in US dollars.

ADDAX PETROLEUM UK LIMITED
Notes to the Financial Statements
For the period from July 10, 2012 to December 31, 2013
(Amounts in thousands of US dollars)

14 Trade receivables

At December 31, 2013

Trade receivables	97
	<u>97</u>
Analysed as follows:	
Prepayments	46
Trade debtors	<u>51</u>
	<u>97</u>

15 Other current assets

**At December 31,
2013**

Amounts due from group undertakings	10,671
Recoverable VAT	<u>1,009</u>
	<u>11,680</u>

16 Trade and other payables

**At December 31,
2013**

Accrued expenses	(1,392)
Amounts due to group undertakings	(10,384)
Trade creditors	<u>(58)</u>
	<u>(11,834)</u>

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17 Share capital

The total number of ordinary shares at December 31, 2013 is 1,000 shares at one US dollar each at nominal value. All issues shares are fully paid.

	At December 31, 2013
Authorised	1
1000 ordinary shares of \$1 each	<u>1</u>
Issued and fully paid for	1
1000 ordinary shares of \$1 each	<u>1</u>
Reconciliation of the number of shares outstanding:	
Opening balance	-
Shares issued	1
Closing balance	<u><u>1</u></u>

All fully paid up shares have a par value of \$1 and entitles the holder to one vote and equal rights to dividends declared.

18 Finance costs

	From July 10, 2012 to December 31, 2013
Interest	24,088
Exchange loss	29
Bank charges	1
	<u><u>24,118</u></u>

The shareholder advance bears interest at Libor 12 month USD + 1.65% margin.

19 Long term borrowings

In December 2012, Tiptop Energy Ltd advanced US\$1,075,730 to Addax Petroleum UK; it is an unsecured advance repayable by December 20, 2017.
As at December 31, 2013 the total amount due to be repaid is US\$1,099,818 including interest of US\$24,088.

The shareholder advance bears interest at Libor 12 month USD + 1.65% margin.

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20 Commitments

The following is a summary of Addax Petroleum UK's 49% commitments as at December 31, 2013.

Addax Petroleum UK holds US\$348,703 commitment relating to its North Sea assets.

Commitment Type	Due within 1 year	Due from 1 to 5 years	Due after 5 years	Total
Ocean-going vessel leases	107,246	135,243	-	242,489
Office leases	1,104	3,508	6,602	11,214
Other service contracts	33,451	9,085	-	42,536
Transportation and processing commitment	16,288	29,253	6,923	52,464
	158,089	177,089	13,525	348,703

Long term incentive plan

Addax Petroleum rewards its permanent employees, as part of their variable compensation, a cash based long term incentive plan ("LTIP" or "Award"). Each year's program allocates an Award which equally vests over a three year period beginning on grant date. The grant date is 1st August following the year for which the Award is approved. The Award is amortised to general and administrative costs.

As at December 31, 2013, the estimated accrued award is as follows:

	Vesting date	Estimated award to vest August 2014	Estimated non- vested award
LTIP 2013	August 2014	71	143
		71	143



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21 Contingencies

Talisman Sinopec Energy (UK) Limited ("TSEUK") is required to provide letters of credit as security in relation to certain decommissioning obligations in the United Kingdom pursuant to contractual arrangements under Decommissioning Security Agreements (DSAs). At the commencement of the joint venture, APHL assumed 49% of the decommissioning obligations of TSEUK supported by an unconditional and irrevocable guarantee from Sinopec International to Talisman Energy Inc ("TEI").

Following the acquisition of a 49% non-operated equity interest in TSEUK, it was agreed between both TEI and APHL that bank facilities previously held by TEI would be progressively transformed into shared facilities. The bank facilities were therefore renegotiated for TSEUK through a first demand guarantee from both shareholders up to their respective equity interest in TSEUK. The transfer of bank facilities from TEI to TSEUK was fully achieved by the end of January 2014.

As at December 31, 2013, \$1.9 billion letters of credit were provided as security for the decommissioning cost obligations in TSEUK. The \$1.9 billion includes \$900 million under TEI's legacy letter of credit facilities, and \$1 billion under the shared facilities, for which APHL has provided a first demand guarantee of \$490 million.

Subsequent to year end, TEI's legacy facilities were replaced by letters of credit totalling \$1 billion from the shared facilities. As a result of this change, as at January 31, 2014, TSEUK held \$2.5 billion of demand shared facilities under which letters of credit of \$2 billion have been issued. APHL guarantees 49% of all letters of credit issued under these shared facilities.

APHL has also granted guarantees to various beneficiaries in respect of TSEUK's decommissioning obligations. The United Kingdom Government passed legislation in 2013 which provides for a contractual instrument, known as a Decommissioning Relief Deed, for the Government to guarantee tax relief on decommissioning costs at 50%, allowing security under DSAs to be posted on an after tax basis and reducing the value of letters of credit required to be posted correspondingly. TSEUK has entered into a Decommissioning Relief Deed with the United Kingdom Government and will commence negotiations with counterparties to amend all DSAs accordingly. Addax Petroleum UK expects this process to be completed during 2014.

Any changes to decommissioning estimates influence the value of letters of credit required to be provided pursuant to DSAs. In addition, the extent to which shared facility capacity is available, and the cost of that capacity, is influenced by APHL's investment grade credit rating.

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22 Related party transactions

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

	From July 10, 2012 to December 31, 2013
Management service fees:	
Addax Petroleum Holdings Ltd	12,905
TSEUK	503
Charges:	
Addax Petroleum Ltd, IOM	(10,384)
Tiptop Energy Ltd	(24,088)

All transactions with these related parties are recorded at amounts agreed to by parties and are made on the same terms and conditions as with non-related customers.

Amounts due from (to) related parties are included in accounts receivable and accounts payable in the statement of financial positions are as follows:

	At December 31, 2013
Tiptop Energy Ltd	(1,099,818)
Addax Petroleum Holdings Ltd	10,562
Addax Petroleum Ltd, IOM	(10,384)
TSEUK	109

In December 2012, Tiptop Energy Ltd advanced US\$1,075,730 to Addax Petroleum UK repayable by December 20, 2017. As at December 31, 2013 the total amount due to be repaid is US\$1,099,818 including interest of US\$24,088.

23 Financial Instruments

Capital Management

Addax Petroleum UK manages its capital to ensure it will be able to continue as a going concern.

The capital structure of Addax Petroleum UK consists of net debt (shareholder advance offset by cash and cash equivalents) and equity (comprising issued capital and retained earnings). Addax Petroleum UK is not subject to externally imposed capital requirements.

Addax Petroleum UK may issue new debt or equity or similar instruments, reduce debt levels, or make adjustments to its capital expenditure program.

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Financial Instruments (continued)

Categories of financial instruments

**At December 31,
2013**

Financial instruments

Financial Assets

Cash and cash equivalents 543

Loans and receivables

Trade receivables and other current assets 11,777

12,320

Financial Liabilities

Trade and other payables (11,834)

Long term borrowings (1,099,818)

(1,111,652)

The carrying value of the financial assets and liabilities approximates their fair value.

Financial risk management objectives

The directors manage the financial risks relating to the Company in conjunction with those of the Group of which it is part and steps are taken where necessary to ensure these risks are appropriately managed. The Company does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The Company is primarily exposed to financial risk of change in foreign currency exchange rates and in the interest rates.

a) Foreign exchange risk

Addax Petroleum UK is exposed to foreign exchange risk because its joint venture undertakes transactions in foreign currencies, primarily with respect to the UK Pounds ("GBP") and Swiss franc ("CHF"). There are no hedging policies in place or hedged transactions, as the majority of financial flows are denominated in USD.

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Financial Instruments (continued)

b) Interest rate risk

Addax Petroleum UK is exposed to interest rate risk on its outstanding borrowings, specifically, on its' shareholder advance.

Addax Petroleum UK manages this risk through regular review of market conditions and interest rates, for which, if considered necessary, recommendations for changes to existing financing or new arrangements are presented to the board of directors or management committee for approval.

A 1% change in the interest rate on the shareholder advance would affect net income for the year ended December 31, 2013 by US\$11,000.

Credit risk

Credit risk is the risk of economic loss arising when counterparty fails to meet its obligations as they become due. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness and the respective concentration risk.

The credit risk on receivables is limited because the counterparties are related parties which are closely monitored at group level.

Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full.

The Company is able to obtain financing from APHL as required. These funds are primarily used to finance working capital and administrative expenses. Addax Petroleum UK manages its liquidity risk by regularly monitoring its cash flows, holding adequate amounts of cash.

Liquidity and interest risk tables

	Interest rate %	Less than 1 Year	Years 1 - 5	Over 5 Years	Total
Financial Assets					
Trade receivables and other current assets	-	11,777	-	-	11,777
Financial Liabilities					
Trade and other payables	-	(11,834)	-	-	(11,834)
Long term borrowings	2.496%	-	(1,099,818)	-	(1,099,818)

24 Events after the reporting period

There were no events to disclose after the reporting period.