

Statement of circumstances relating to the resignation of Deloitte LLP as auditors to Addax Petroleum UK Limited ("APUK")

This statement of circumstances is issued in accordance with s519 of the Companies Act and sets out the circumstances directly resulting in our resignation as auditors to APUK prior to having completed the audit for the year ended 31 December 2015 that we consider should be brought to the attention of members and creditors

APUK is a wholly owned subsidiary of Addax Petroleum Holdings Limited ("APHL" or "Addax") and along with its fellow subsidiary undertakings is part of the APHL group (the "Addax Petroleum Group"). The issues raised in this statement while not all directly relating to APUK, directly impact the audit of APUK because there are common directors, common management and significant financial interaction and interdependence between APHL, APUK and other group subsidiaries including entities from which questionable payments and transactions have been made. In the case of APUK these interdependent transactions include material charges from and outstanding balances with, such entities.

In the course of our audit work on the Addax Petroleum Group we have identified a number of payments made for which we have been unable to obtain satisfactory explanations or sufficient audit evidence regarding their business rationale and validity. These amounts include:

- payments in excess of \$20 million recorded as legal expenses that were made to several "legal advisors" in Nigeria and the United States from bank accounts in Nigeria and the Isle of Man and for which, amongst other concerns, it has not been clearly established what services were delivered for the amounts paid, and
- payments to an engineering company in excess of \$80 million regarding construction projects for the Antan and Udele/Ofinma developments. Amongst other concerns, the magnitude of these payments appears to be in excess of the demonstrable value of work performed and their purpose and timing raise issues which have not been resolved.

In addition we have received a number of whistleblowing allegations, both from within and external to Addax, some of which allege that such payments have been made to bribe foreign government officials and that certain amounts have been embezzled by certain members of management within Addax Petroleum Group. Allegations also include (i) inappropriate expenditures made by the Geneva branch of the Isle of Man group service company and (ii) payroll irregularities in the group service company, which recharges costs throughout the Addax Petroleum Group, that raise associated compliance issues. We recognise that these are whistleblower allegations and are not proven, but they cause us a great deal of unresolved concern.

We have communicated the following to the management and those charged with governance of the Addax Petroleum Group as well as in our direct correspondence to the management of Addax's indirect shareholder (Sinopec International Petroleum Exploration and Production Corporation "SIPC"):

- our concerns regarding the circumstances surrounding the abovementioned payments
- our concerns regarding Addax Petroleum Group's failure to maintain adequate financial records and failure to provide us with sufficient audit evidence to justify the abovementioned payments,
- our concerns regarding various whistleblowing allegations and
- our recommendation that an independent external investigation be performed into these payments and into the whistleblowing allegations in order to properly clarify these elements and provide appropriate evidence to satisfy our audit concerns.

An in-depth investigation by an independent external expert is essential due to the implication of a significant number of members of management in the whistleblowing allegations and in making and approving the payments over which we have concerns.

Further, the responses of certain directors of APHL and APUK and certain members of senior management of APHL and its other subsidiaries have raised unresolved concerns in relation to our ability to rely on their audit evidence and representations to perform our audit work. Their explanations lacked credibility, were inconsistent and at times directly contradictory to previous documentary information provided.

We raised initial concerns with Addax Petroleum Group management at the beginning of March 2016 and formally recommended an independent investigation to SIPC on 10 May 2016. Addax Petroleum Group management were informed on 31 August 2016 of our intention to issue a disclaimer of opinion for the group and all of its subsidiaries, including APUK, should sufficient appropriate audit evidence not be provided.

In the period since these communications, we have issued significant additional correspondence, including a formal request for our concerns and recommendations to be elevated to the ultimate controlling shareholders of APHL and APUK. We have been provided with a very recent internal Addax communication, which suggests that a potential investigation is being considered, but which confirms our understanding that to date no such investigation has been carried out. We consider that sufficient time has now passed since our initial request for an independent, external and appropriately scoped investigation to address our audit concerns to have been carried out and we are concerned that this has not happened. Instead management of APHL have initiated steps to terminate Deloitte's appointment as auditor to the group and certain of its subsidiaries.

Deloitte LLP

Deloitte LLP – Audit registration C009201919
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