SDX ENERGY

2015 ANNUAL REPORT

2015 HIGHLIGHTS:

Corporate and Financial Highlights

- Completed a business combination between Sea Dragon Energy Inc. ("Sea Dragon") and Madison PetroGas Ltd. ("Madison") on October 1, 2015 to create "SDX Energy Inc.";
- 12 months to December 31, 2015 realized net revenues of US$17.6 million ("MM") and netback of US$11.5MM (2014: US$44.5MM and US$32.8MM, respectively);
- 12 months to December 31, 2015 realized average oil price of US$41.55 per barrel ("bbl") (2014:US$82.34/bbl);
- Exited 2015 with cash on hand of US$8.2MM and zero debt after repaying a US$1.65MM reserves based loan and a US$2.05MM debenture;
- Invested US$6.4MM of capital expenditure into business;
- 12 months to December 31, 2015, total comprehensive income of US$7.4MM compared to total comprehensive (loss) of US$(1.0)MM for the 12 months to December 31,2014;
- In SDX's 2015 financial statements which, under International Financial Reporting Standards ("IFRS") are required to reflect 12 months financial results of Madison and three months financial results of Sea Dragon, total comprehensive income in 2015 will be US$9.4MM compared to US$7.9MM in 2014; and
- Total comprehensive income for the 12 months to December 31, 2015 and under IFRS includes an US$18.3MM gain on the business combination and a US$6.8MM impairment charge.

Operational Highlights

- Average daily oil sales in 2015 of 1,519 barrels of oil equivalent ("BOE") per day ("BOE/D");
- Average daily natural gas and natural gas liquids production in 2015 of 152 BOE/D (to be invoiced in 2016);
- As at December 31, 2015, pursuant to the Degolyer and MacNaughton Report (as defined below), proved and probable reserves net to SDX of 7.34MM BOE (North West Gemsa and Meseda) and gross mean prospective resources of 490 billion cubic feet ("BCF") of gas and 16.33MM barrels of oil and liquids (269.5 BCF and 8.98 MM barrels of oil and liquids net to SDX) at South Disouq;
- In North West Gemsa, completed seven successful work-over wells and spudded Al Amir SE-23 development well, which was completed and tested at 4,080 BOE/D in February 2016;
- In Meseda the MSD-6 well logged 146 feet of net pay and was brought on production at 330 BOE/D. Two further wells were drilled during the year and will be used for water injection needs and to delineate the northern boundary of the field;
- Contractor appointed to carryout 300km^2 3D seismic survey at South Disouq. Government approvals obtained and mobilisation commenced;
- Well planning and surveys completed for Manatee-1 exploration well at West Bakassi in Cameroon; and
- Completed technical review of prospectivity at South Ramadan development concession.

Subsequent to year-end:

- Al Amir SE-23 brought onto production and Al Amir SE-24 development well spud in February 2016, with results expected in late April/early May 2016;
- South Disouq 300 km^2 3D seismic survey acquisition commenced March 2016; and
- Manatee-1 spud on March 2, 2016 and on March 27, 2016 reached a total depth of 1,447 meters ("m") after intersecting 26m of gas bearing section of varying quality. Results being assessed.

2016 Guidance and Outlook:

- Complete drilling of AASE-24 development well at North West Gemsa and carry out nine well workover program;
- Progress 11 well workover program, infill drilling and a waterflood program at Meseda;
- Complete South Disouq 300 km^2 3D seismic survey and drill carried exploration well before year end;
- Assess result of Manatee-1 well in Cameroon and technical review at South Ramadan and decide on optimum way forward for these assets; and
- Continue to work to reduce G&A post business combination.

Contents

SDX ENERGY

(SDX-TSX.V)

Our activities are concentrated in Egypt and Cameroon where we have interests in five concessions with both short and long-term potential.

FINANCIAL AND OPERATING HIGHLIGHTS

The following tables provide a summary of SDX's financial and operating results for the Proforma combined business and the audited financial statements for the three and twelve month periods ended December 31, 2015 and 2014.

Consolidated financial statements with Management's Discussion and Analysis ("MD&A") are available on the Company's website at sdxenergy.com and on SEDAR at www.sedar.com.

PROFORMA COMBINED BUSINESS	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000s except per unit amounts	**2015**	2014	**2015**	2014
FINANCIAL				
Gross Revenues	**4,128**	12,946	**23,030**	71,331
Royalties	**(686)**	(4,760)	**(5,467)**	(26,879)
Net Revenues	**3,442**	8,186	**17,563**	44,452
Operating costs	**(2,483)**	(3,131)	**(6,039)**	(11,630)
Netback	**959**	5,055	**11,524**	32,822
Net Income/(Loss)	**8,542**	(2,784)	**7,358**	(1,024)
per share	**0.15**	(0.02)	**0.20**	(0.02)
Funds from operations	**(934)**	1,389	**758**	14,269
per share	**(0.02)**	0.04	**0.02**	0.25
Cash, end of period	**8,170**	17,935	**8,170**	17,935
Working capital (excl. cash)	**3,382**	(3,522)	**3,382**	(3,522)
Capital expenditures	**2,404**	(519)	**6,358**	17,950
Total assets	**60,016**	49,092	**60,016**	49,092
Shareholders' equity	**55,246**	39,449	**55,246**	39,449
Common shares outstanding (000's)	**37,642**	56,348	**37,642**	56,348
OPERATIONAL				
Oil sales (bbl/d)	**652**	1,239	**759**	1,346
Gas sales (mcf/d)	**–**	–	**–**	705
NGL sales (bbl/d)	**–**	–	**–**	16
Production Service Fee (bbl/d)	**704**	904	**760**	894
Total boe/d	**1,356**	2,143	**1,519**	2,373
Brent Oil Price ($/bbl)	**43.56**	76.37	**52.30**	98.94
West Gharib Oil Price ($/bbl)	**34.35**	69.82	**42.81**	90.16
Net realized price ($/bbl)	**33.09**	65.65	**41.55**	82.34
Royalties ($/bbl)	**5.50**	24.14	**9.86**	31.03
Operating costs ($/bbl)	**19.90**	15.88	**10.89**	13.42
Netback ($/bbl)	**7.69**	25.63	**20.80**	37.89

AUDITED FINANCIAL STATEMENTS	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000s except per unit amounts	**2015**	2014	**2015**	2014
FINANCIAL				
Gross Revenues	**4,128**	4,831	**12,058**	24,533
Royalties	**(686)**	–	**(686)**	–
Net Revenues	**3,442**	4,831	**11,372**	24,533
Operating costs	**(2,483)**	(1,159)	**(4,973)**	(3,639)
Netback	**959**	3,672	**6,399**	20,894
Net Income/(Loss)	**8,542**	(993)	**9,400**	7,936
per share	**0.23**	(0.02)	**0.20**	0.15
Funds from operations	**(934)**	2,652	**1,902**	17,020
per share	**(0.02)**	0.05	**0.04**	0.30
Cash, end of period	**8,170**	17,935	**8,170**	17,935
Working capital (excl. cash)	**3,382**	(3,522)	**3,382**	(3,522)
Capital expenditures	**2,404**	685	**5,120**	13,634
Total assets	**60,016**	49,092	**60,016**	49,092
Shareholders' equity	**55,246**	39,449	**55,246**	39,449
Common shares outstanding (000's)	**37,642**	56,348	**37,642**	56,348
OPERATIONAL				
Oil sales (bbl/d)	**652**	–	**164**	–
Production Service Fee (bbl/d)	**704**	904	**760**	894
Total boe/d	**1,356**	904	**924**	894
Brent Oil Price ($/bbl)	**43.56**	76.37	**52.30**	98.94
West Gharib Oil Price ($/bbl)	**34.35**	69.82	**42.81**	90.16
Net realized price ($/bbl)	**33.09**	58.07	**35.74**	75.15
Royalties ($/bbl)	**5.50**	–	**2.03**	–
Operating costs ($/bbl)	**19.90**	13.94	**14.74**	11.15
Netback ($/bbl)	**7.69**	44.13	**18.97**	64.00

CHAIRMAN'S
Statement

Michael Doyle
Chairman

This past year has seen the creation of SDX Energy and I am delighted to be writing to all the shareholders of this new entity for the first time. The merger between Sea Dragon Energy and Madison Petrogas was a key moment in the history of both companies as it created SDX Energy, a company that provides a strong platform for future growth.

The management teams of both companies had explored strategic options to achieve scale and materiality, to provide long-term financial stability and to create a balanced portfolio providing exposure to low-cost production and high-impact exploration. It soon became apparent that the two companies were a perfect match with strong synergies, and the subsequent merger enabled the successful achievement of all of those key strategic criteria. Whilst we are still in the early days as SDX Energy, the strategic rationale for the merger has already proved successful with increased production and G&A and Operating cost reductions already being realised.

The combined portfolio is well-balanced and provides value creation opportunities in both oil and gas, across the full spectrum of producing, development and exploration assets within our portfolio. The low-cost production we obtain from Meseda and NW Gemsa enables resilience in a low oil price environment and ensures that we can remain profitable should the challenging market conditions continue. The combined synergies from these two producing assets has enabled us to drive the costs down further on both assets resulting in average combined operating costs of circa US$10.89 per barrel. This impressively low operating cost metric provides a sustainable platform in this current business environment while it also ensures we are extremely well placed to benefit from an eventual recovery in commodity pricing in the future.

Whilst the Company's business plan is predicated on growing low-cost production, we are also excited by the exploration potential in the combined portfolio. Our high-impact gas potential in the South Disouq concession, in Egypt, could be transformational and we are looking forward to completing the 3D seismic program and drilling a well carried by our partner, at the end of 2016. In Cameroon the Manatee-1 well encountered 26 meters of gas bearing section and we are currently studying the well results to help us decide on the optimum way forward for this asset.

The sector back-drop is certainly challenging as Brent crude prices averaged US$52/bbl through 2015, almost half the average price from the previous year. The first quarter of 2016 has witnessed further deterioration in market conditions as a result of global over supply. Consequently, Brent crude oil spot prices decreased by US$7/bbl in January to a monthly average of US$31/bbl, the lowest monthly average price since December 2003. Whilst we remain confident that a rebalancing will occur in the medium term, and we have seen signs of this in the last month, the industry has adapted to the reality that a strong near term recovery is unlikely.

The challenging backdrop created by this rapid and sustained fall in oil and gas prices further supports the rationale for our merger as the strong balance sheet, debt free position and cash generation profile of SDX Energy ensures that we are uniquely placed to not only survive in a prolonged downturn, but in fact to benefit from the opportunities this presents. Firstly, we have an active work program ahead including a 3D seismic program and a further well in South Disouq. Two development wells, one of which has already been successfully tested, and a 9 well workover program is planned in NW Gemsa and in Meseda, we complete an 11 well workover program, infill drilling and a water flood program. Operating costs have fallen in line with oil prices, so we have taken advantage of these falling costs with the contractors we are using for our operational activity. Secondly, we are seeing a lot of interesting new venture opportunities in Egypt from companies in distressed situations or from those wishing to rationalise their portfolios. Our strong presence and network in Egypt ensures that we obtain early access to many of these opportunities and our management team continues to screen the most compelling of these to assess whether they would complement our existing portfolio. Our growth strategy is based on both organic growth through production ramp-up and exploration success, and acquisition based growth, and we may see some corporate activity this year should we find assets which fit into our existing business and overall growth strategy.

Egypt continues to improve as an operating environment and the government has taken great strides in addressing some of the issues that had previously impacted the perception of the country as a favourable place for foreign oil companies to do business. Despite the diversification of our portfolio through the addition of our acreage in Cameroon, Egypt remains our core market due to our long-term and strong relationships with the Energy Ministry and Government. These relationships, built over many years of doing business in country, have enabled us to manage our portfolio efficiently and avoid any issues with overdue receivables. We continue to be encouraged with the stability that President Sisi's government is maintaining within the country and believe that we are well-positioned to benefit from the opportunities presented by this continued de-risking of Egypt as an operating environment.

One factor that is adding to our enthusiasm for Egypt is the potential of the country's growing gas market and the need for indigenous gas discoveries to help meet the growing domestic demand for gas. This is particularly relevant for SDX in regards to the South Disouq concession, which will see an exploration well drilled towards the end of this year. If successful, SDX's South Disouq concession could become a major supplier of indigenous gas into the Egyptian market and at the same time become a transformational value catalyst for the Company.

SDX Energy possesses an extremely experienced and well respected Board with a deep pool of industry talent and expertise. Your Board is mindful of the challenges facing the sector and is fully focussed on ensuring SDX Energy moves forward efficiently and effectively. A strict commitment to capital discipline is a key priority and the Company has already successfully reduced the operating costs and overheads in all aspects of the business.

As previously described, we are very conscious of the difficulties within the sector at present and we are aware that we are not totally immune to some of the issues that this presents. However, we strongly believe that we have a solid platform based on our low-cost production and stable financial position, and are therefore uniquely placed to thrive despite the challenging sector backdrop. In summary, 2015 was truly transformational, for the Company and our shareholders and it's with excitement and enthusiasm that we move ahead into 2016. Finally, I would like to thank all of our shareholders for their continued support and belief in the Company, and we hope to repay you through long-term value creation.

Michael Doyle, Chairman

CEO/COO'S

Message

Paul Welch

President
Chief Executive Officer
Chief Operating Officer

SDX Energy has experienced a truly transformational year in 2015 with the Company benefitting significantly from the merger between TSX listed Sea Dragon Energy and privately held Madison PetroGas in early October 2015. The rationale for the merger was to create materiality and scale through consolidation. Specifically, we sought to create a combined entity with an enhanced ability to grow shareholder value through production growth and exploration success and, which also had the ability to access capital and provide greater liquidity for our shareholders. The merger significantly strengthened and diversified our portfolio which contains four concessions in Egypt and one in Cameroon. The Egyptian concessions consist of two producing assets, North West Gemsa and Meseda, a development asset, South Ramadan and an exploration asset, South Disouq and in Cameroon, an exploration asset called West Bakassi.

Throughout 2015 we have continued to refocus SDX's portfolio towards low-cost producing assets. Previously, Sea Dragon sold Kom Ombo (with Opex of c.US$60/bbl) and relinquished Shukheir Marine (with Opex of c.US$100/bbl). The October 2015 merger saw SDX acquire Meseda, a high-margin producing asset in Egypt. Additionally we have set up a task force with our partners NPIC and Circle Oil to reduce Opex at our other producing asset in Egypt, North West Gemsa. In 2015 we achieved average Opex of US$10.89/bbl and our aim is to reduce this further during 2016. This focus on reduction of Opex is a key part of our strategy and has given us two resilient producing assets that will enable the Company to remain profitable even in a sub US$30 oil price environment, whilst also providing leveraged upside to an eventual rebalancing of the oil price.

We continue to focus on increasing production at both North West Gemsa and Meseda and have an active work plan for 2016. In North West Gemsa, 2 development wells will be drilled and 9 well workovers will be carried out. In Meseda we will progress an 11 well workover program, infill drilling and a waterflood program. The commencement of this work plan has already produced positive results on the North West Gemsa field with the successful Al Amir SE-23 development well which flowed on test light 42.2° API oil at a rate of 4080 BOPD (1.3% water cut; 48/64ths choke).

The Al Amir SE-24 development well was spud in February 2016, with results expected in late April/early May 2016. Our already low and falling cost of production ensures that we are uniquely placed amongst our industry peers to be able to generate positive free cash flow despite the low oil price environment.

Another significant focus for the Company in 2015 has been to reduce our General and Administrative (G&A) expenses. We have re-bid all service company costs and also successfully cut in half the cost of the 3D seismic program on South Disouq compared to previous estimates. It is our goal to further drive down SDX's G&A in 2016 by c. US$0.75 million or circa. 15%.

Another key aspect of the merger was the financial stability that it brought to the combined entity. We have strengthened our balance sheet by entirely eliminating all Company debt over the course of 2015. At the start of 2015 the Company had over US$10M of debt and this was completely eliminated by October 2015. The rapid and sustained fall in oil prices has put a lot of strain on industry peers leveraged by debt so we are fortunate to be in a position where this is not an issue for SDX. Our focus on cost-cutting combined with our now debt-free balance sheet puts the Company on a solid footing going into 2016.

Looking ahead, we have some very exciting exploration opportunities coming up in 2016, which if successful, could transform the Company in the near term. In our South Disouq concession, located onshore in the Nile Delta area of Egypt, the Company has commenced the acquisition of 300km^2 of 3D seismic. The acquisition will complete mid-year and an exploration well is planned towards the end of 2016 where SDX's drilling costs are carried by our partner. In Cameroon, the Manatee-1 well was spud on March 2, 2016 and on March 27, 2016 reached a total depth of 1,447 meters ("m") after intersecting 26 meters of gas bearing section of varying quality. The well results are currently being assessed and a decision will be made in the near future on the optimum way forward for this asset. We look forward to updating our shareholders on our progress throughout the year.

The combined strength of our low-cost producing assets, stable financial position, and high-impact work program has created a company which is a solid platform for growth. We are well placed to remain resilient through a sustained low oil price environment with our high value producing fields that require very modest levels of capital expenditure to maintain production levels. Furthermore, our exploration activities, which are already underway, are an exciting extension of our offering to shareholders and provide a number of firm catalysts with the potential to generate significant shareholder value over the next 12 months. Finally, we are uniquely positioned to capitalise on new opportunities that arise in Egypt through our extended network and influence there, and we will be leveraging our stable platform for growth to take advantage of the opportunities we see in the current environment.

To conclude, I would like to personally thank SDX's shareholders, both new and old, for their continued support and belief in our story. I would also like to thank my Board and all my SDX colleagues for their dedication, hard work, creativity and vision which has enabled us to build up such positive momentum as we head into 2016. Despite the industry headwinds that result from the current oil price environment, the Company is in a solid position and the management team is focussed on the main task at hand which is generating value for all of our shareholders. I hope this overview helps convey the enthusiasm and excitement that SDX's management possesses for the future of this company. We anticipate that the year ahead will be as equally transformational as the previous year, and we look forward to utilising the solid platform we have created to achieve our ambitious growth objectives going forward.

Paul Welch

President
Chief Executive Officer
Chief Operating Officer

Reserves SUMMARY

Reserve estimates have been calculated in compliance with the National Instrument 51-101 Standards of Disclosure ("NI 51-101"). Under NI 51-101, proved reserves are defined as reserves that can be estimated with a high degree of certainty to be recoverable with a target of a 90 percent probability that the actual reserves recovered over time will equal or exceed proved reserve estimates, while probable reserves are defined as having an equal (50%) probability that the actual reserves recovered will equal or exceed the proved and probable reserve estimates. In accordance with NI 51-101, proved undeveloped reserves have been recognized in cases where plans are in place to bring the reserves on production within a short, well defined time frame. Proved undeveloped reserves often involve infill drilling into existing pools. Of the net present value of the Company's reserves, 100 percent were evaluated by an independent third party engineer, DeGolyer and MacNaughton Canada Limited, Calgary, Alberta, Canada ("DeGolyer") in their report dated February 19, 2016.

The decrease in reserves year on year is primarily based on the amount produced from the existing assets. Technical and commercial (pricing) revisions in North West Gemsa and Meseda have largely offset each other.

RECONCILIATION OF GROSS RESERVES AS AT DECEMBER 31, 2015
FORECAST PRICES AND COSTS

	LIGHT & MEDIUM CRUDE OIL			HEAVY OIL			NATURAL GAS			NATURAL GAS LIQUIDS			BOE		
	PROVED (mbbl)	PROBABLE (mbbl)	PROVED PLUS PROBABLE (mbbl)	PROVED (mbbl)	PROBABLE (mbbl)	PROVED PLUS PROBABLE (mbbl)	PROVED (mmcf)	PROBABLE (mmcf)	PROVED PLUS PROBABLE (mmcf)	PROVED (mbbl)	PROBABLE (mbbl)	PROVED PLUS PROBABLE (mbbl)	PROVED (mbbl)	PROBABLE (mbbl)	PROVED PLUS PROBABLE (mbbl)
December 31, 2014	1,551	641	2,192	3,233	2,453	5,686	1,520	1,222	2,742	52	41	93	5,098	3,346	8,444
Technical Revisions	(709)	(432)	(1,141)	586	985	1,571	(590)	(988)	(1,578)	(25)	(34)	(59)	(250)	348	99
Economic Factors	(13)	–	(12)	–	–	–	(16)	–	(17)	(1)	–	(1)	(17)	–	(16)
Production	(270)	–	(270)	(859)	–	(859)	(282)	–	(282)	(8)	–	(8)	(1,186)	–	(1,186)
December 31, 2015	559	209	769	2,960	3,438	6,398	632	234	865	18	7	25	3,645	3,694	7,341

SUMMARY OF OIL & GAS RESERVES AS AT DECEMBER 31, 2015

	LIGHT & MEDIUM CRUDE OIL		HEAVY CRUDE OIL		NGLS		NATURAL GAS	
Category	GROSS (mbbls)	NET (mbbls)	GROSS (mbbls)	NET (mbbls)	GROSS (mbbls)	NET (mbbls)	GROSS (mmcf)	NET (mmcf)
Proved Developed Producing	430	199	2,610	999	14	7	490	226
Proved Developed Non-Producing	106	49	-	-	4	1	121	56
Proved Undeveloped	23	10	350	134	-	-	21	10
Total Proved	**559**	**258**	**2,960**	**1,133**	**18**	**8**	**632**	**292**
Probable	210	97	3,438	1,310	7	3	233	108
Total Proved plus Probable	**769**	**355**	**6,398**	**2,443**	**25**	**11**	**865**	**400**
Possible	204	89	2,022	770	7	3	235	102
Total Proved plus Probable plus Possible	**973**	**444**	**8,420**	**3,213**	**32**	**14**	**1,100**	**502**

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUES
AS OF DECEMBER 31, 2015
FORECAST PRICES AND COSTS
(IN US$ MILLIONS)

	BEFORE INCOME TAX					AFTER INCOME TAX				
	DISCOUNTED AT					DISCOUNTED AT				
Reserve Category	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**
Proved Developed Producing	37,092	31,900	28,119	25,257	23,018	30,643	26,501	23,465	21,153	19,335
Proved Developed Non-Producing	3,099	2,780	2,516	2,292	2,103	3,098	2,780	2,515	2,292	2,103
Proved Undeveloped	2,362	1,757	1,295	939	661	1,878	1,344	938	626	383
Total Proved	**42,553**	**36,437**	**31,930**	**28,488**	**25,782**	**35,619**	**30,625**	**26,918**	**24,071**	**21,821**
Probable	59,572	46,135	36,935	30,354	25,473	47,110	36,515	29,242	24,027	20,153
Total Proved plus Probable	**102,125**	**82,572**	**68,865**	**58,842**	**51,255**	**82,729**	**67,140**	**56,160**	**48,098**	**41,974**
Possible	43,054	31,593	24,211	19,212	15,677	34,314	25,264	19,418	15,446	12,629
Total Proved plus Probable plus Possible	**145,179**	**114,165**	**93,076**	**78,054**	**66,932**	**117,043**	**92,404**	**75,578**	**63,544**	**54,603**

Reserve Definitions:

(1) Proved reserves are those that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves.

(2) Proved Undeveloped reserves have been recognized in cases where plans are in place to bring the reserves on production within a short, well defined time frame. Proved Undeveloped reserves often involve infill drilling into existing pools.

(3) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of estimated proved plus probable.

(4) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

The disclosures required in accordance with National Instrument 51-101 of the Canadian Securities Administrators are available on the Company's Annual Information Form to be filed on the SEDAR website at www.sedar.com.

REVIEW OF OPERATIONS

REVIEW OF
OPERATIONS

EGYPT

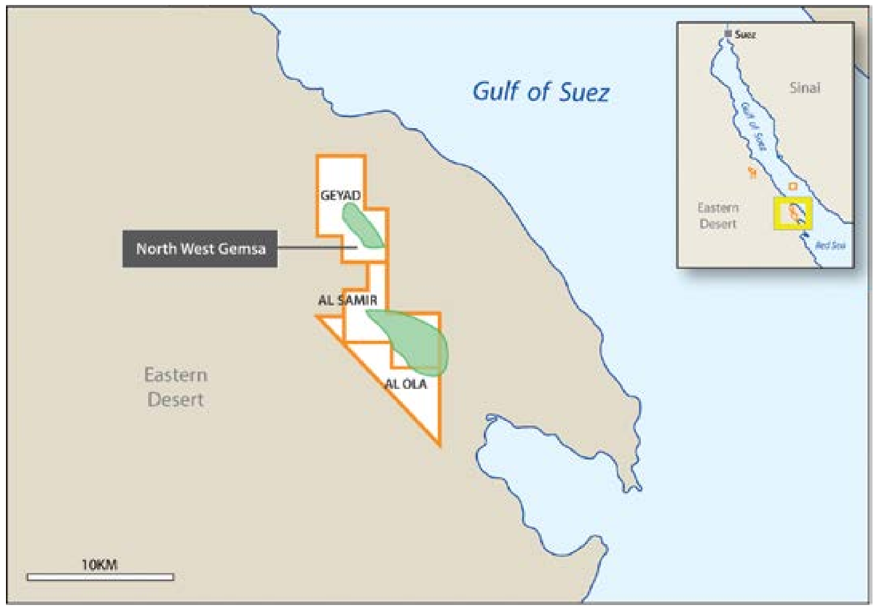
SDX Energy is actively involved in production, exploration and development activities in three of Egypt's premier oil provinces – the Eastern Desert, the Nile Delta, and the Gulf of Suez. The Eastern Desert and Gulf of Suez areas account for the bulk of Egypt's historical oil production. These two areas are geologically related and expertise gained in one translates across to the other. The Nile Delta area offers exciting exploration opportunities in a prolific and proven hydrocarbon system with multiple productive horizons.

EASTERN DESERT

NORTH WEST GEMSA CONCESSION

The NW Gemsa concession is located in the Eastern Desert, 300 km southeast of Cairo. The concession is 82.7 km^2 in area and includes three fields; Geyad, Al Amir SE, and Al Ola (the southern extension of Al Amir SE). All of the fields are covered by development leases.

The fields are operated by PetroAmir, a joint operating company between the partners (SDX Energy, 10%; Circle Oil, 40%; and Zenhua Oil, 50%) and Ganoub El Wadi (a subsidiary of the Egyptian General Petroleum Corporation). The Al Amir SE and Geyad fields produce light oil (40-42° API oil; priced at Brent less 5%) from two reservoir intervals; the Miocene-aged Shagar and Rahmi sandstones of the Kareem Formation.



2015 production averaged 8,753 BOEPD (875 BOEPD net to SDX from the Al Amir SE and Geyad fields. Cumulative production from NW Gemsa for 2015 was 3,195 MBOE, bringing total production over the life of the fields to more than 22.29 million BOE.

The 2015 work program was focused on production optimization (ESP installations and replacements, tubing replacements), development of PDP reserves (recomple-tions of behind pipe pay intervals), and pressure maintenance. As such, a seven well workover program was initiated in Q2 2015. Highlights from this campaign are summarized below.

Al Amir SE-18 (AASE-18): The AASE-18 was shut-in during Q1 2015 due to low reservoir pressure. In late Q2 the well was recompleted to the Shagar sandstone and was brought onto production at ~500 BOEPD.

Geyad-6ST: In Q3 2015 an ESP was installed on the Geyad 6-ST, increasing production from ~350 BOEPD to over 600 BOEPD.

Al Amir SE-21 (AASE-21): The AASE-21 was shut-in in late Q1 2015 due to high water cut and decreasing reservoir pressure. In Q3 2015 the well was recompleted to the Rahmi sandstone and brought on production at ~500 BOEPD with a less than 1% water cut.

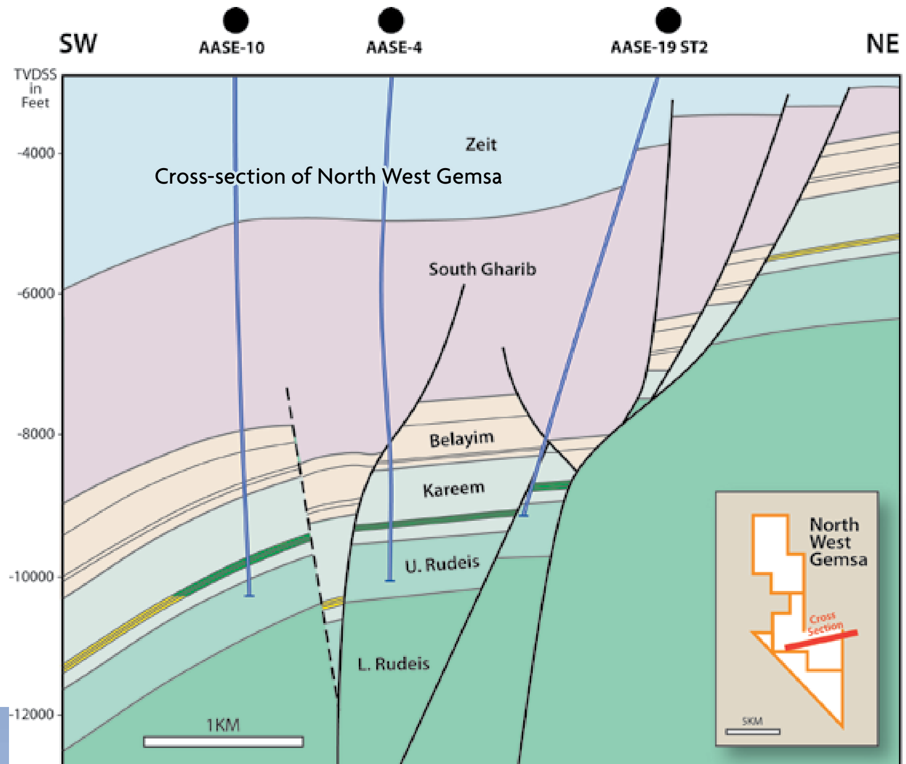
Additionally, in late Q4 2015 a rig was mobilized for a two well development drilling campaign. A summary of the initial results from the wells is given below.

Al Amir SE-23 (AASE-23a): The AASE-23 was spud in December, 2015 and drilled to a TD of 9820 feet; the well was subsequently side-tracked (AASE-23ST) to a more geologically favourable location and reached TD in January, 2016. The well logged 22 feet of net pay in the Shagar sandstone and 29 feet of net pay in the Rahmi sandstone. The well was completed in the Shagar sandstone and was tested at 4080 BOEPD (1.3% water cut; 48/64ths choke). Improved drilling technique allowed the original wellbore to be drilled for 30% under approved expenditure limits, and the sidetrack 17% under approved expenditure limits, greatly improving well economics.

Al Amir SE-24 (AASE-24): The AASE-24 was spud in February, 2016 and drilled to a TD of 9800 feet; the well was subsequently side-tracked (AASE-24ST) to a more geologically favourable location and reached TD in March, 2016. The well logged 15 feet of net pay in the Shagar sandstone and 7 feet of net pay in the Rahmi sandstone. Results are expected in May, 2016.

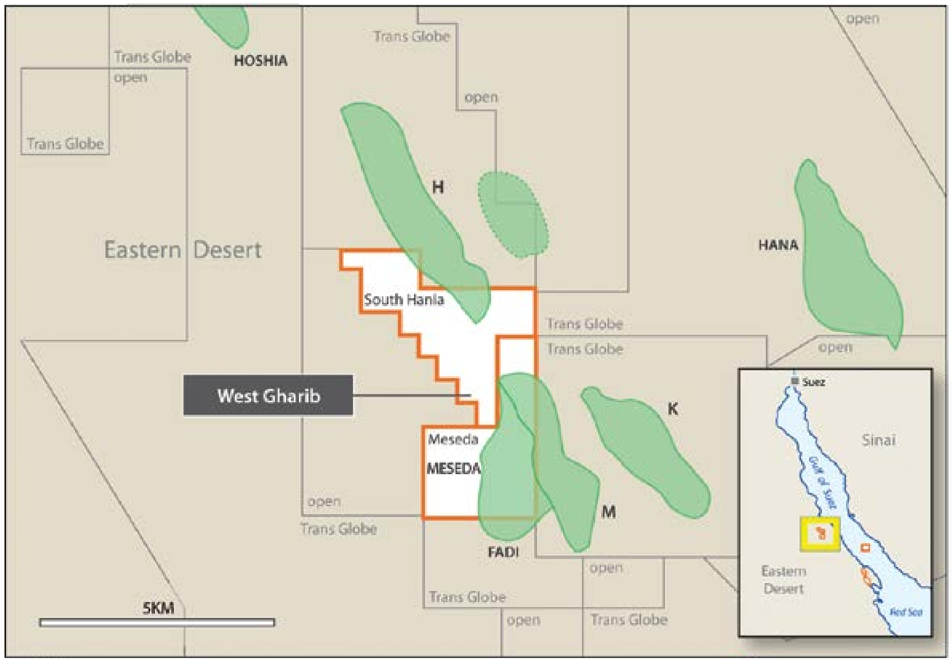
UNITIZATION

Unitization talks with the offset operator have continued to progress throughout 2015. Resolution is expected in 2016.



BLOCK-H MESEDA

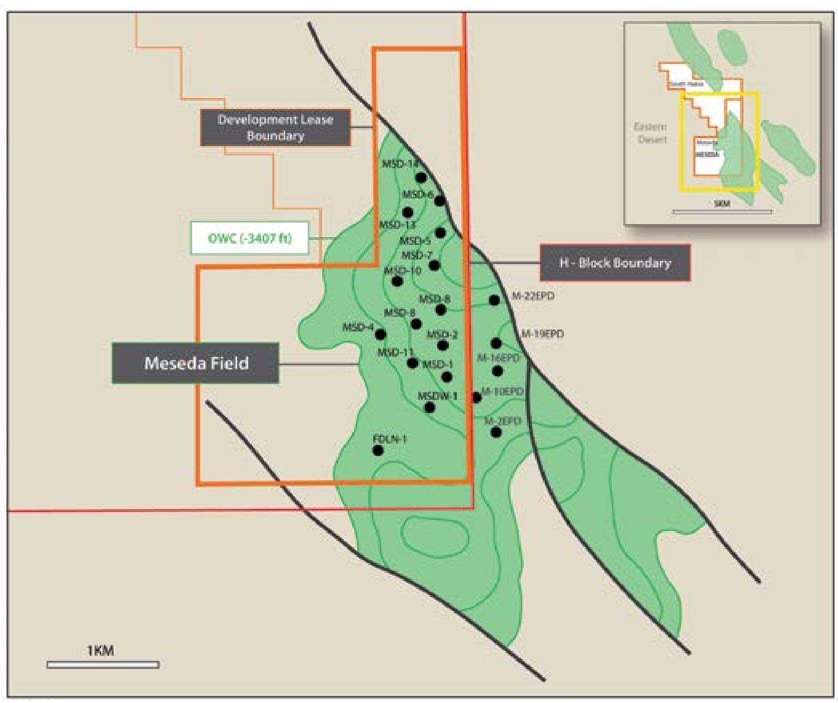
Block-H is located in the Eastern Desert, 230 km southeast of Cairo. The concession is 22 km^2 in area and is currently producing from the Meseda field (which is covered by the Meseda-H development lease). The field is covered by a risked service agreement, which allows for more efficient operations than the traditional joint venture structure, as evidenced by production costs of US$10.89/bbl. SDX Energy has a 50% working interest, while Dublin International Petroleum (the operator) holds the remaining 50% working interest.



The Meseda field produces from the high-quality Miocene-aged Asl sands of the Rudeis Formation. 2015 production from the Meseda field averaged 3,944 BOPD (749 BOPD net to SDX Energy) of 16-18° API oil. Cumulative production through the end of 2015 for the Meseda field was 5,284 MBO.

The 2015 work program was focused on field delineation and development drilling and providing water injection and handling capabilities. A summary of this activity is given below:

Meseda H-12 (MSD-12): The MSD-12 well was drilled in Q2 2015 to the north of Meseda field to delineate the northern boundary of the field. The well was classified as a dry hole and was plugged and abandoned.



Meseda H-6 (MSD-6): The MSD-6 was drilled in Q2 2015. The well logged 146 feet of high-quality net pay in the Asl sand, and was brought onto production at ~330 BOPD in September, 2015.

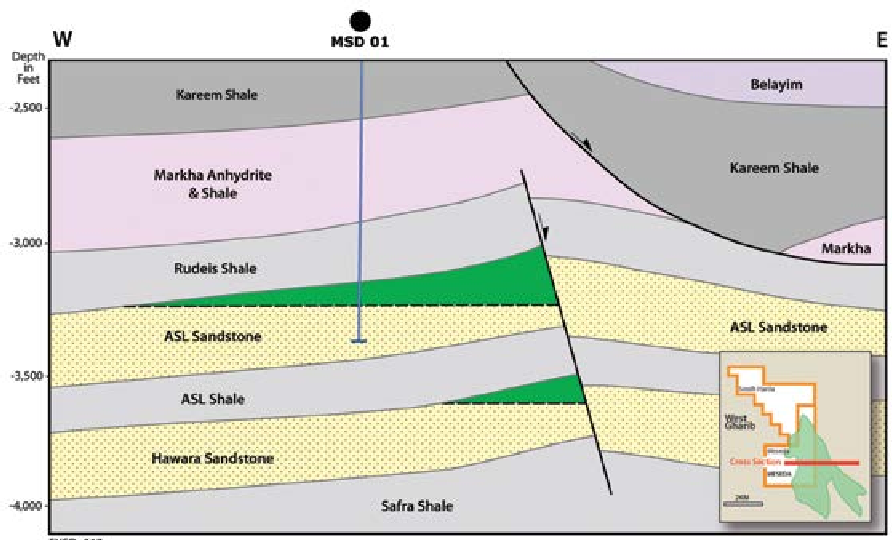
Meseda H-WI-1 (MSD-WI1): The MSD-WI1 was drilled in Q2 2015 to provide pressure support for the field. The well logged a full reservoir interval that is in pressure communication with Meseda field. The well is currently being evaluated as part of a larger review of water injection needs.

OPERATIONS REVIEW

EPJ-1X: The EPJ-1X well was a historical exploration dry hole that was drilled before acquisition of the concession. The well was converted to a water disposal well to increase the field's water handling capabilities.

In late Q4 2015 a strategic initiative between the partners was started to better define the potential benefits of a water injection program, how to optimize production from existing wells through more optimal specification of the ESPs used in the wells, and to outline additional exploration opportunities on the block. Work on these initiatives is expected to continue through the first half of 2016.

Cross-section of Meseda Field



This initiative has resulted in a two-phase program. The first phase, which is currently underway, is a workover program focused on ensuring asset integrity and flow assurance (e.g. removing fill, performing well-bore clean-outs, tubing replacements, etc.) while delivering incremental production gains by adding perforations and optimizing pumping parameters. The second phase, which will start before year end, comprises an eleven well workover program that will be focused on increasing production through ESP replacements and optimization and a water injection program with associated infill drilling.

GULF OF SUEZ

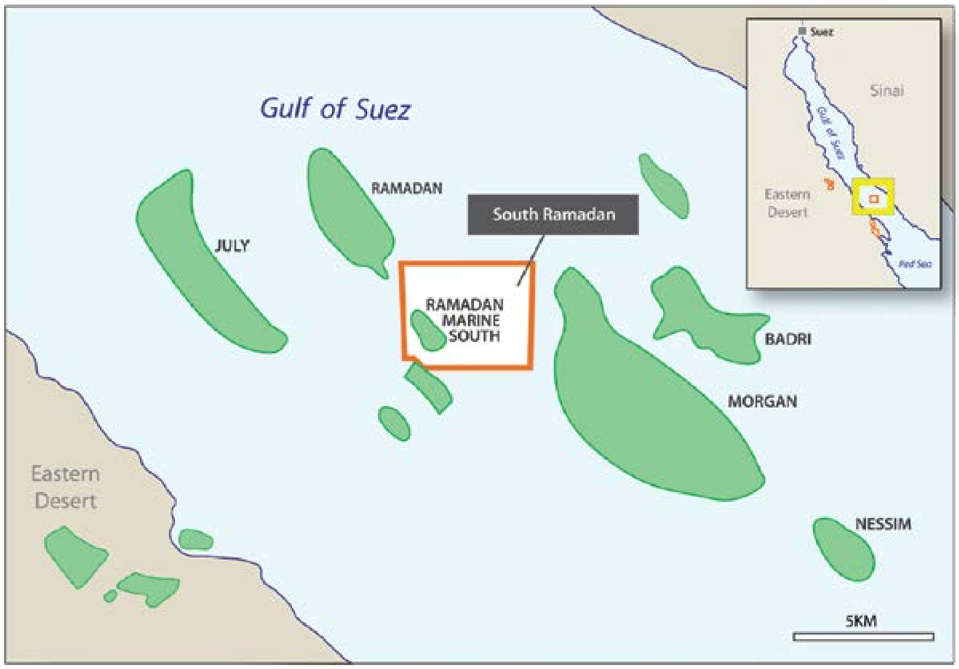
SOUTH RAMADAN CONCESSION

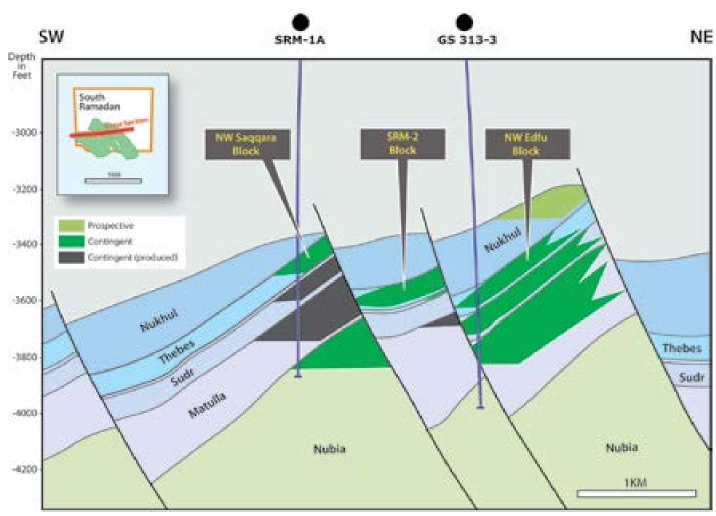
The 26 km^2 South Ramadan development concession is located in the offshore Gulf of Suez, between the prolific Ramadan and Morgan fields. SDX Energy holds a 12.75% working interest, with Pico (the operator) holding 37.25%, and GPC holding the remaining 50%. The concession is considered prospective for the Lower Cretaceous-aged Nubia sandstone and has historical production from the Eocene-aged Thebes and Upper Cretaceous-aged Matulla formations.

In Q3 2015 reprocessing of three merged seismic surveys was initiated after awarding the contract to a local vendor in Cairo.

In Q1 2016 seismic reprocessing activities were completed and the final PSTM and PSDM 3D seismic volumes were received. Subsequent interpretations of the data have delineated potential appraisal locations. A technical review of prospect volumetrics and economics is currently underway.

It is anticipated that a development/appraisal well will be drilled in Q4 2016 to satisfy the work program commitments. Operations will occur during the Gulf of Suez's seasonal drilling window (which runs from October-April).





SHUKHEIR MARINE CONCESSION

The Shukheir Marine concession was relinquished on January 31, 2015 due a lack of future commercial potential driven by high operating costs.

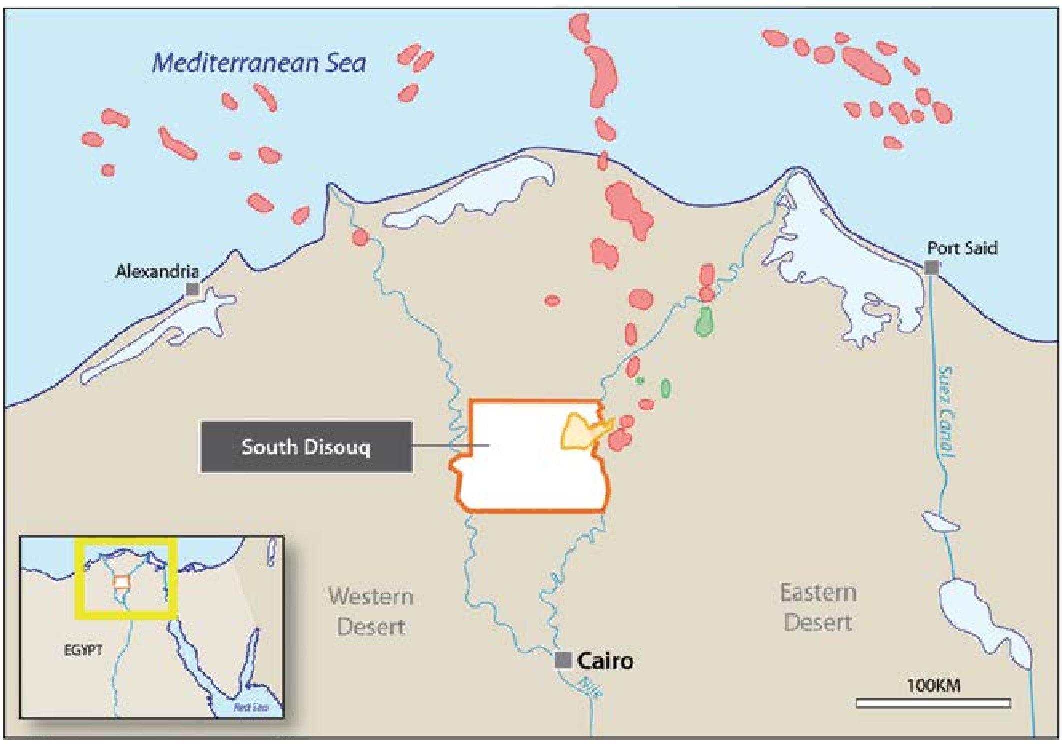
NILE DELTA

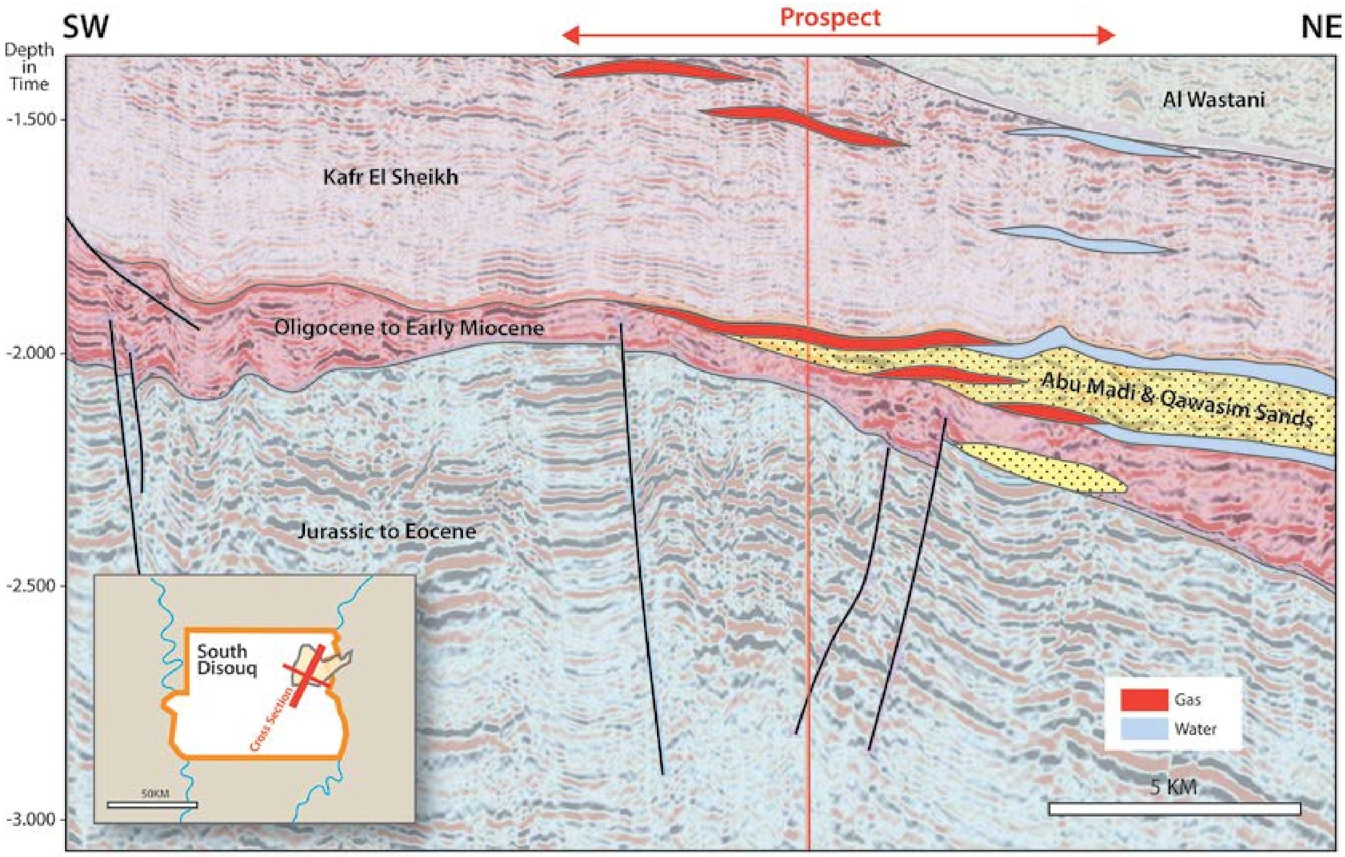
SOUTH DISOUQ CONCESSION

South Disouq is a 1,275 km^2 concession located 65 km north of Cairo in the Nile Delta region. The concession is along trend with numerous, prolific gas fields in the Abu Madi Formation, and is estimated to have a resource potential in excess of 1.2 TCF in a large, undrilled Abu Madi trap (based on a recent independent resource report). The area is under-explored, but an evaluation of 26 reprocessed regional 2D seismic lines indicates that the Abu Madi trend continues into the South Disouq concession. This evaluation outlined the area of interest where our 300 km^2 3D seismic shoot will be conducted.

A tendering process for seismic acquisition was undertaken, with 15 technically-qualified companies invited to bid. After a thorough review with partners (SDX Energy, 55%; IPR 45%) and approval by government authorities the contract for seismic acquisition was awarded to a contractor with a track record of operational success in the region.

During Q4 2015 and into early Q1 2016 the focus of activity shifted to detailed logistical planning and gaining the necessary approvals from relevant government ministries. All necessary approvals have been obtained and equipment mobilization is complete. In January 2016 site surveying commenced and in February 2016 the initial shot holes for the survey were drilled. The seismic recording operations started on March 3, 2016 and will be concluded in June 2016 (59% completed to date). Contracts for seismic processing are in place, and it is expected that the initial exploration well will be drilled in Q4 2016.

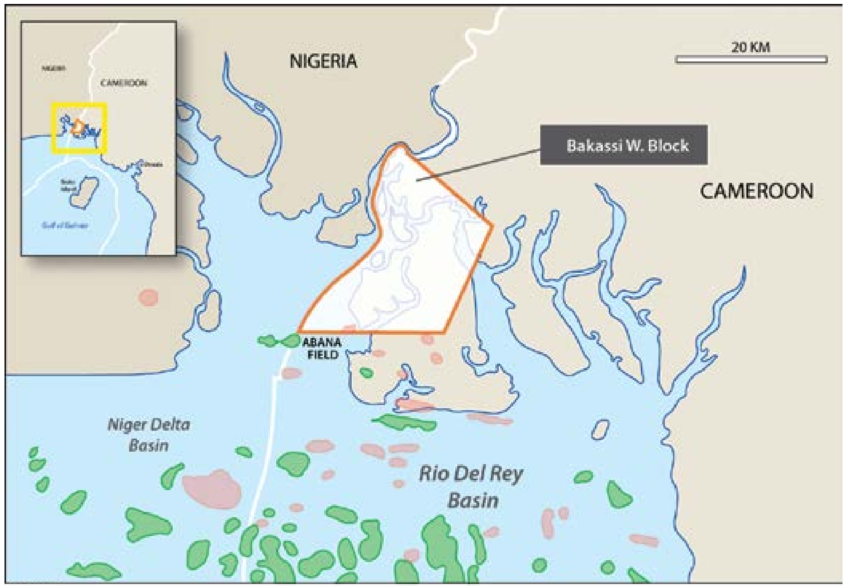


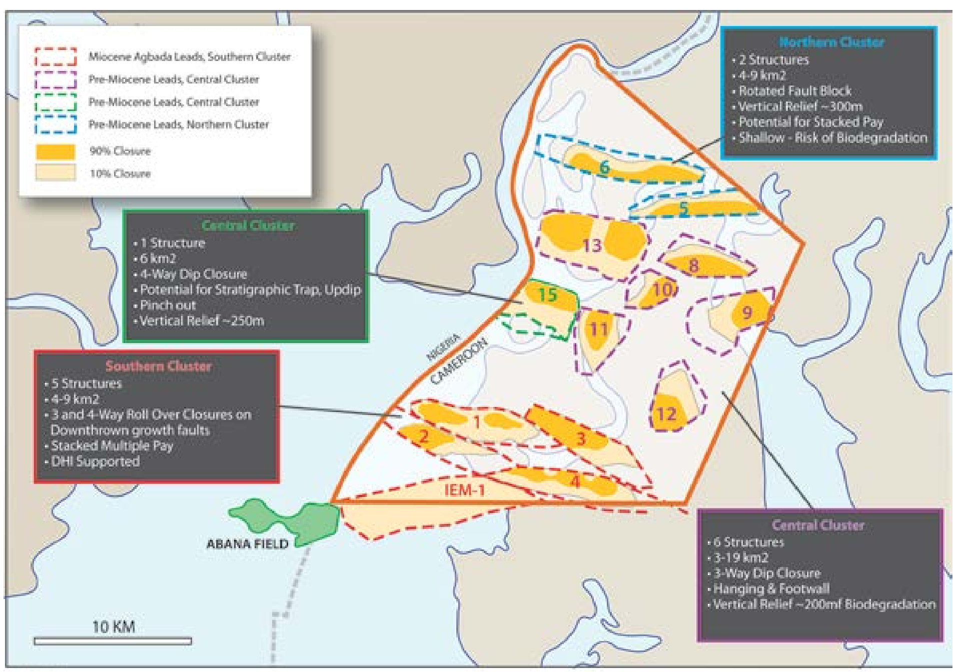


SW
Prospect
NE
Depth
in
Time
-1.500
-2.000
-2.500
-3.000
Al Wastani
Kafr El Sheikh
Oligocene to Early Miocene
Abu Madi & Qawasim Sands
Jurassic to Eocene
South
Disouq
Cross Section
50KM
Gas
Water
5 KM

CAMEROON

SDX Energy is engaged in exploration in the Bakassi West Concession located in the Rio Del Rey basin, which comprises the easternmost portion of the Niger delta complex in offshore Cameroon. The near-shore Rio Del Rey basin is characterized by detachment-based growth faults that set up downthrown fault traps; these are typically present at moderate depths with productive horizons typically shallower than 2000m. Reservoir properties are generally excellent and AVO analysis has been employed successfully across the basin.



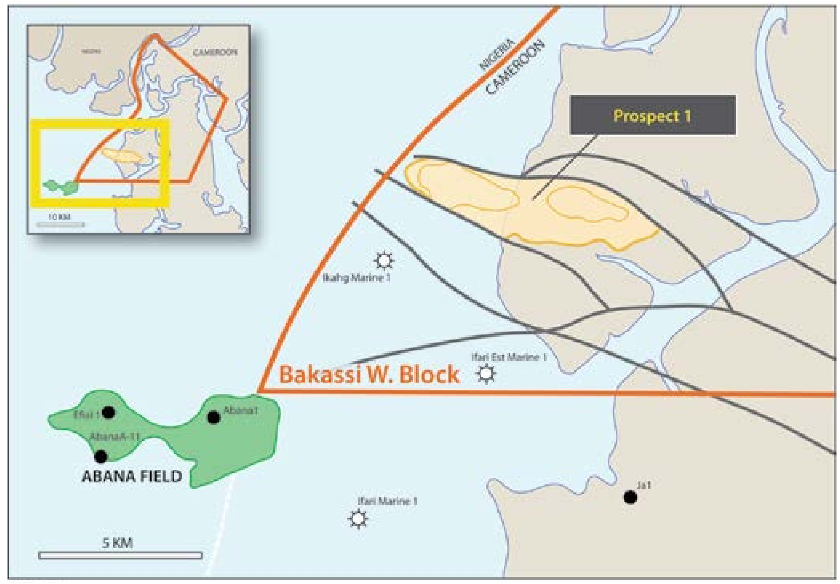


RIO DEL REY BASIN

BAKASSI WEST CONCESSION

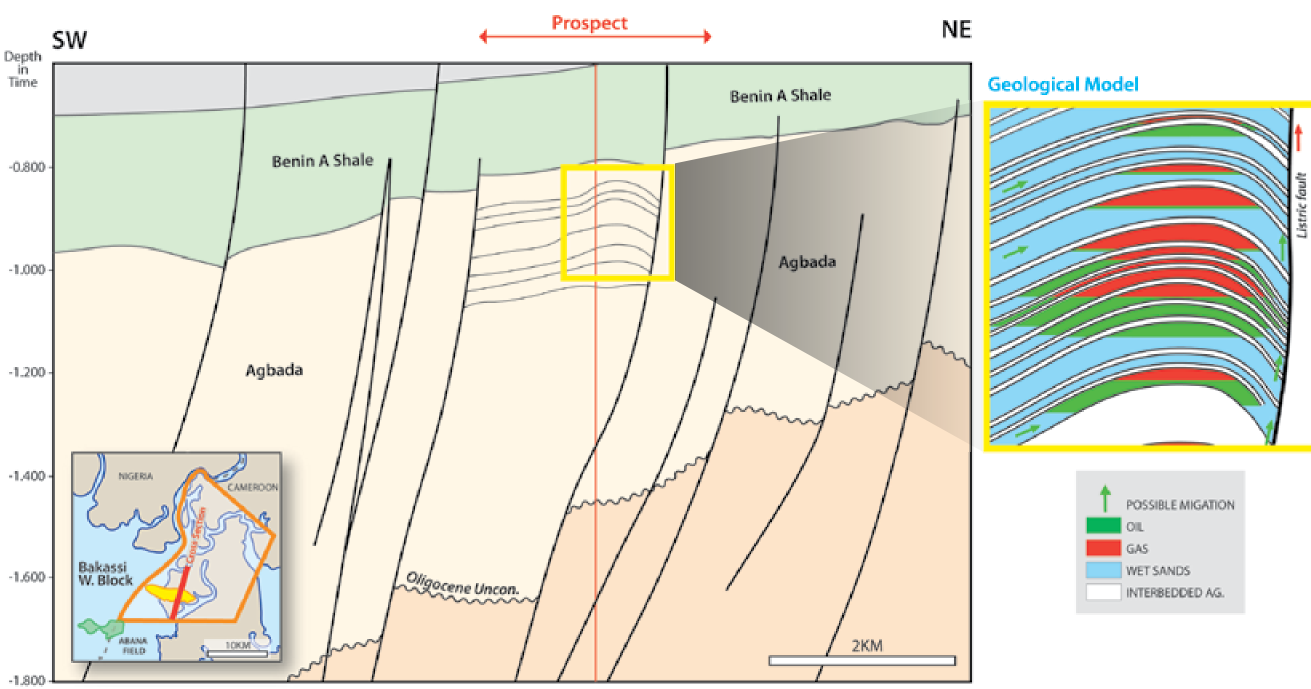
The Bakassi West concession (SDX Energy, 35%; Dana Petroleum, 55%, operator; SoftRock Oil and Gas, 10%) is located in the Rio Del Rey Basin, adjacent to the Cameroon-Nigeria border. The concession is 388 km^2 in area and covers an area that comprises shallow open-water, channels and mangroves.

During 2014 new 2D seismic data was acquired, and subsequent analyses outlined a number of prospects and play types, and in Q1 2015 AVO analysis was undertaken to further de-risk the prospects. Additionally, micro-seep (Q2 2015) and macro-seep (Q3 2015) studies were conducted to better understand the petroleum system and hydrocarbon distribution. This work resulted in the identification of 13 leads and prospects within the concession. These leads and prospects were then technically ranked and several were selected as potential drilling candidates for the 2016 campaign.



During the second half of 2015 the focus shifted from play de-risking and prospect analysis to pre-drill planning. Shallow hazard mapping and bathymetric studies of the proposed drilling locations were completed, and a jack-up rig was identified for use in the 2016 drilling campaign.

The Manatee-1 exploration well (formerly referred to as the P1-West prospect) was spud on March 2, 2016 and on March 27, 2016 reached a TD of 1,447 meters after intersecting 26 meters of gas bearing section of varying quality. The well results are currently being assessed and a decision will be made in the near future on the optimum way forward for this asset.



MANAGEMENT'S DISCUSSION & ANALYSIS

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated April 29, 2016 is a review of results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), formerly known as Sea Dragon Energy Inc., and Madison Petrogas Ltd., for the three and twelve months ended December 31, 2015. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2015 and 2014. In order to provide the reader with a better understanding of the underlying operational performance of the combined business (of Sea Dragon and Madison) for the years to December 31 2015 and 2014, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a 12 months to December 31, 2015 basis versus 12 months to December 2014 basis. The proforma sections commence after the completion of the sections of the MD&A based on the audited consolidated financial statements for the years to December 31, 2015 and 2014 which have been prepared under IFRS 3 Business Combinations.

Certain information contained herein is forward-looking and based upon assumptions and anticipated results that are subject to risks, uncertainties and other factors. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary materially from those expected. See "Forward Looking Statements", below.

All financial references in this MD&A are in thousands of United States Dollars unless otherwise noted.

Additional information related to the Company can be found on SEDAR at *www.sedar.com.*

Forward-Looking Statements

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are for the purpose of providing information about Management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A include, but are not limited to, statements or information with respect to: business strategy and objectives; development plans; exploration plans; acquisition and disposition plans and the timing thereof; reserve quantities and the discounted present value of future net cash flows from such reserves; future production levels; capital expenditures; net revenue; operating and other costs; royalty rates and taxes.

Forward-looking statements or information are based on a number of factors and assumptions that have been used to develop such statements and information but may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions that may be identified in this MD&A, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the countries in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions that may have been used.

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. The risks and uncertainties that may cause actual results to differ materially from the forward-looking statements or information include, among other things: the ability of Management to execute its business plan; general economic and business conditions; the risk of war or instability affecting countries or states in which the Company operates; the risks of the oil and natural gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas; market demand; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; risks and uncertainties involving geology of oil and natural gas deposits; the uncertainty of reserves estimates and reserves life; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew production sharing concession; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to production (including decline rates), costs and expenses; fluctuations in oil and natural gas prices, foreign currency exchange, and interest rates; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of oil revenue payments; health, safety and environmental risks; risks associated with existing and potential future law suits and regulatory actions against the Company; uncertainties as to the availability and cost of financing; and financial risks affecting the value of the Company's investments. Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, particularly the recoverability of accounts receivable and acquisition costs of property and equipment. Estimates and assumptions also affect the recording of liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Due to various factors affecting future costs and operations, actual results could differ from management's best estimates.

Business Combination

On August 18, 2015 Sea Dragon Energy Inc. ("Sea Dragon") and Madison Petrogas Ltd ("Madison") entered into an Arrangement Agreement whereby Sea Dragon acquired all the issued and outstanding Madison shares. Prior to the closing of the transaction Sea Dragon effected a 35:1 share consolidation and as a result of this share consolidation the exchange ratio equated to 0.477143 Sea Dragon share for each Madison share.

The business combination and closing of the transaction was effected on October 1, 2015 at which date the former Madison shareholders held approximately 71% of the combined entity known as SDX Energy Inc.

In preparing the consolidated financial statements the Company must conform with IFRS 3 – Business Combinations. Given that the former Madison shareholders hold 71% of the combined entity Madison is treated as the acquirer.

This means that in the audited Financial Statements, the 2015 Statement of Comprehensive Income for the combined entity contains twelve months of revenue and costs for Madison and three months of revenue and costs for the former Sea Dragon group (the 2014 Statement of Comprehensive Income relates to Madison only). The Balance Sheet as at December 31, 2015 represents the combined Balance Sheets for SDX and Madison as at October 1, 2015 plus the monthly movements for October to December 2015 (the 2014 Balance Sheet relates to Madison only). For more information relating to the Business Combination see note 4 of the Financial Statements.

Non-IFRS Measures

The MD&A contains the terms "funds from operations", and "netbacks" which are not recognized measures under IFRS. The Company uses these measures to help evaluate its performance.

In order to provide the reader with a better understanding of the underlying operational performance of the combined business (of Sea Dragon and Madison) for the years to December 31 2015 and 2014, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a 12 months to December 31, 2015 basis versus 12 months to December 2014 basis.

Funds from operations

Funds from operations is a non-IFRS measure that represents funds generated from operating activities before changes in non-cash working capital. Funds from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management uses funds from operations to analyze performance and considers it an indication of the Company's ability to generate the cash necessary to fund future capital investments. The Company's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS.

Reconciliation of cash flow from operations and funds from operations:

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	**2015**	2014	**2015**	2014
Cash from/(used in) operating activities	**(3,536)**	3,756	**(5,214)**	25,531
Less: Changes in non-cash working capital	**(2,602)**	1,103	**(2,183)**	12,941
Less: Income taxes paid	**–**	–	**(4,933)**	(4,430)
Funds generated by/(used in) operations - (FFO)	**(934)**	2,652	**1,902**	17,020

For the three months ended December 31, 2015 the Company used funds from operations before investing and financing activities of US$0.9 million. For the twelve months ended December 31, 2015 the company generated funds from operations of US$1.9 million.

Netback

Netback is a non-IFRS measure that represents sales net of all operating expenses and government royalties. Management believes that netback is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Management considers netback an important measure as it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures used by other companies. See netback reconciliation schedule under the outlook section below.

SDX ENERGY'S BUSINESS, STRATEGY AND WORK PROGRAM

SDX's Business

SDX is engaged in the exploration, development and production of oil and gas. Current activities are concentrated in Egypt and Cameroon, where the Company has interests in five concessions with short and long-term potential. The Company's strategy is to develop the potential of its existing concessions while seeking growth opportunities within its region of focus. The Company intends to create shareholder value by enhancing the value of its assets and through significant growth in production volumes, cash flow and earnings.

Strategy

The Company's strategy is to create value through low cost production growth and low cost high impact exploration success. The Company is underpinned by a portfolio of low cost onshore producing assets combined with onshore exploration prospects in Egypt.

SDX intends to organically increase production and cash flow generation through an active work program consisting of workover and development wells in its existing portfolio in Egypt, combined with high impact exploration drilling in Egypt. The Company is in the process of analyzing the results of its recent Bakassi West exploration well in Cameroon and, once this is complete, it will make a decision on its future strategy in the country. In pursuing this strategy, SDX also intends to leverage its balance sheet, early mover advantage and regional network to grow through the acquisition of undervalued and/or underperforming producing assets principally in onshore Egypt, while maintaining a strict financial discipline to ensure an efficient use of funds.

The Company currently holds working interests ("W.I.") in three development and one exploration concession in Egypt, having relinquished its interest in the Shukheir Marine concession, effective January 31, 2015. The Company also has a working interest in one exploration concession in Cameroon:

- The NW Gemsa Concession ("NW Gemsa") – (10% W.I.);
- The South Ramadan Concession ("South Ramadan") – (12.75% W.I.);
- The South Disouq Concession ("South Disouq") – (55% W.I.);
- The Block-H Meseda production service agreement ("Meseda") – (50% W.I.);
- The Bakassi West Concession ("Bakassi") – (35% W.I.).

2016 Work Program

The Company's expected gross capital expenditure program for 2016 is approximately US$19.9 million.

The Company's forecast capital expenditure program for NW Gemsa in 2016 is c. US$1.3 million and includes the drilling of two production wells, one of which was spud in 2015, and the undertaking of nine well workovers.

In Meseda the Company plans to undertake an extensive well workover program to replace/repair Electrical Submersible Pumps and improve production rates in up to 11 wells. Thereafter the Company will carry-out an infill drilling and water flood program to extend plateau production in these wells. The overall cost to SDX, of this program, is estimated at US$5.2 million.

The Company's capital expenditure program for South Disouq in 2016 is estimated at US$7.0 million and primarily comprises of the cost to complete the 3D seismic program (acquisition and processing) and the annual training fees for the concession. As the Company incurs this expenditure the State will release its work program security of US$3.0 million of withheld receivables.

In Cameroon the total cost of the Bakassi well and associated post-well analysis is estimated at US$6.4 million.

OPERATIONAL AND FINANCIAL HIGHLIGHTS:

In accordance with Canadian industry practice, production volumes and revenues are reported on a Company interest basis, before deduction of royalties.

Operational and Financial information contained below represents the audited IFRS 3 information extracted from the Financial Statements for the years to December 31, 2015 and 2014.

$000's unless stated	PRIOR QUARTER [1]	THREE MONTHS ENDED DECEMBER 31 2015	THREE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2015	TWELVE MONTHS ENDED DECEMBER 31 2014
OPERATIONAL					
Oil revenue	–	**2,322**	–	**2,322**	–
Royalties	–	**(686)**	–	**(686)**	–
Net Oil revenue	–	**1,636**	–	**1,636**	–
Production service fee revenue	2,215	**1,806**	4,831	**9,736**	24,533
Total Net Revenue	2,215	**3,442**	4,831	**11,372**	24,533
Operating Costs	(816)	**(2,483)**	(1,159)	**(4,973)**	(3,639)
Netback (pre tax)	1,399	**959**	3,672	**6,399**	20,894
Oil Sales (bbl/d)	–	**652**	–	**164**	–
Production service fee (bbl/d)	723	**704**	904	**760**	894
Total boe/d	723	**1,356**	904	**924**	894
Oil sales volumes (bbls)	–	**59,988**	–	**59,988**	–
Production service fee volumes (bbls)	66,517	**64,751**	83,189	**277,407**	326,479
Total sales volumes (boe)	66,517	**124,739**	83,189	**337,395**	326,479
Brent Oil Price (US$/bbl)	$50.26	**$43.56**	$76.37	**$52.30**	$98.94
West Gharib Oil Price (US$/bbl)	$40.71	**$34.35**	$69.82	**$42.81**	$90.16
Realized oil price (US$/bbl)	$0.00	**$38.70**	$0.00	**$38.70**	$0.00
Realized Service fee (US$/bbl)	$33.31	**$27.59**	$58.07	**$33.71**	$75.15
Net Realized price (US$/boe)	$33.31	**$33.09**	$58.07	**$35.74**	$75.15
Total Royalties (US$/boe)	$0.00	**$5.50**	$0.00	**$2.03**	$0.00
Operating costs (US$/boe)	$12.27	**$19.91**	$13.94	**$14.74**	$11.15
Netback (US$/boe)	$21.04	**$7.69**	$44.13	**$18.97**	$64.00
Capital expenditures	797	**2,404**	685	**5,120**	13,634

(1) Three months ended September 30, 2015

Oil Sales and Production Service Fee Revenues

	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2015	2014	**2015**	2014
Oil Sales Revenue	–	**2,322**	–	**2,322**	–
Production Fee Revenues	2,215	**1,806**	4,831	**9,736**	24,533
Oil Sales and Production Fee Revenues	2,215	**4,128**	4,831	**12,058**	24,533

Total revenues for the three and twelve months ended December 31, 2015 were US$4.1 million and US$12.1 million compared to US$4.8 million and US$24.5 million for the comparative periods in the prior year.

For the twelve months ended December 31, 2015 (compared to the prior year ending December 31, 2014) the decrease in production service fees of US$14.8 million, 60%, to US$9.7 million in 2015 is due to a decrease in realized price of US$11.1 million or, 45%, and a decrease in volumes of US$3.7 million, or 15%.

Oil sales revenue relates to the NW Gemsa field and the three months ended December 31, 2015 is the first quarter of reporting due to the business combination effective October 1, 2015.

Direct Operating Costs

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2015	2014	**2015**	2014
N W Gemsa	–	**377**	–	**377**	–
Shukheir Marine	–	**1,205**	–	**1,205**	–
Block-H Meseda	816	**897**	1,159	**3,387**	3,639
Other	–	**4**	–	**4**	–
Direct operating costs	816	**2,483**	1,159	**4,973**	3,639

Direct operating costs for the three and twelve months ended December 31, 2015 were US$2.5 million and US$5.0 million compared to US$1.2 million and US$3.6 million for the comparative periods in the prior year.

As a result of the business combination effective October 1, 2015 the three months ended December 31, 2015 is the first quarter of reporting for the NW Gemsa and Shukheir Marine concessions. Although the Company relinquished the Shukheir Marine concession in January 2015, the above US$1. 2 million charge relates to costs incurred up to the date of the relinquishment which had not been previously recognized.

Direct operating costs for Block-H Meseda saw a reduction of 22.6% for the three months ended December 31, 2015 compared to 2014 and 6.9% for the twelve months of 2015 compared to 2014.

Impairment charge

At the reporting date an impairment test was triggered due to falling crude oil prices and a reduction in the proved and probable reserves for the NW Gemsa concession. The impairment test was carried out for the NW Gemsa and Block-H Meseda fields. The impairment test was carried out in accordance with the accounting policy note stated in Note 3 to the audited Financial Statements for the year to December 31, 2015. The recoverable amounts of the fields have been determined based on value-in-use calculations. These calculations require the use of estimates. The present values of future cash flows were computed by applying forecast prices for oil and gas reserves to estimated future production of proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 15%. The discount rate used reflects the specific risks relating to the underlying cash generating units ("CGUs").

Using this calculation an impairment charge of US$6.8 million was recognized in the three months ended December 31, 2015. Further details of the methodology to calculate this impairment charge is shown below.

The value in use calculation assumes Brent oil sales prices in US$/bbl as follows:

2016	2017	2018	2019	2020	2021	2022
US$42.48	US$60.10	US$63.34	US$69.86	US$75.58	US$80.41	US$87.65

If the discount factor applied to the impairment test were to decrease by 5% above the current factor of 15%, the impairment of the NW Gemsa fields would be US$7.5 million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the impairment of the NW Gemsa fields would be US$6.1 million.

If the oil price assumptions used in the impairment test were to decrease by 5% the impairment of the NW Gemsa fields would be US$8.3 million.

The combined group also incurred an impairment expense for the NW Gemsa concession in 2014 for US$2.8 million due to falling crude oil prices. The value in use calculation for the 2014 impairment assumed Brent oil sales prices in US$/bbl as follows:

2015	2016	2017	2018	2019	2020
US$62.00	US$69.00	US$72.50	US$74.50	US$80.00	US$90.00

General and administrative expenses

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
Wages and employee costs	1,328	**1,063**	450	**2,828**	1,430
Consultants - inc. PR/IR	42	**265**	184	**499**	456
Legal fees	–	**113**	–	**124**	8
Audit, tax and accounting services	33	**(287)**	167	**449**	394
Public company fees	–	**228**	–	**228**	–
Travel	17	**86**	89	**250**	235
Office expenses	84	**243**	78	**490**	317
IT expenses	20	**38**	16	**75**	58
Transaction costs	496	**–**	–	**496**	–
Service recharges	–	**(669)**	–	**(669)**	–
Total - Net G&A	2,020	**1,080**	984	**4,770**	2,898

General and administrative ("G&A") expenses for the three and twelve months ended December 31, 2015 were US$1.1 million and US$4.8 million compared to US$1.0 million and US$2.9 million for the comparative periods in the prior year. G&A for the twelve months ended December 31, 2015 was higher than 2014 by US$1.9 million or 64.6%. Of this US$1.9 million increase US$1.5 million related to restructuring costs, of which US$1.0 million is included within Wages and employee costs and US$0.5m is shown as a separate line item called Transaction costs. Both of these items were costs that were incurred as part of, or as a result of the business combination.

Current taxes

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2015	2014	TWELVE MONTHS ENDED DECEMBER 31 2015	2014
Current taxes	55	**346**	(164)	**1,168**	4,308

Current taxes for the three and twelve months ended December 31, 2015 were US$0.3 million and US$1.2 million compared to US$(0.2) million and US$4.3 million in the comparative periods of the prior year.

Current taxes are higher in the three months ended December 31, 2015 due to the inclusion of the NW Gemsa concession; which accounted for US$0.25 million. Current taxes fell by US$3.1 million for the twelve months ended December 31, 2015 when compared to 2014 due to falling crude oil prices and a 15% fall in production volumes.

Although not shown above, the Consolidated Statement of Comprehensive Income also reflects the movement in Deferred Income Tax liabilities.

Capital expenditures

The following table shows the capital expenditure for the Company in accordance with IFRS3 –Business Combinations and this agrees to the Consolidated Statement of Cash Flows contained in the Financial Statements for the year to December 31, 2015.

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2015	2014	TWELVE MONTHS ENDED DECEMBER 31 2015	2014
Property, plant and equipment expenditures ("PP&E")	447	**(28)**	82	**1,375**	1,928
Exploration and evaluation expenditures ("E&E")	350	**2,419**	590	**3,728**	11,670
Office furniture and equipment	–	**13**	13	**17**	36
	797	**2,404**	685	**5,120**	13,634

During the three months ended December 31, 2015, the Company incurred US$2.4 million of E&E expenditure. This expenditure is allocated US$1.4 million for the South Disouq 3D program, Egypt and US$1.0 million for geological and geophysical studies and pre-planning for the drilling of the Manatee-1 well in the West Bakassi concession, Cameroon.

During the twelve months ended December 31, 2015, the Company incurred US$1.4 million on PP&E and US$3.7 million on E&E.

PP&E US$1.4 million on Block-H Meseda consisted of facilities costs of US$0.1 million, pipe inventory of US$0.1 million and drilling a step out development well and a water injector for US$1.2 million.

The E&E additions of US$3.7 million related to i) US$1.4 million for the South Disouq concession and ii) US$2.3 million for the West Bakassi, Cameroon; an explanation relating to this is included in the Intangible Exploration and Evaluation Assets section on the next page.

Property, Plant and Equipment

The following table shows the cumulative costs and associated depletion, depreciation and impairment for property and equipment on all of the Company's oil and gas properties. Please see Note 10 of the Financial Statements for further details.

$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Oil and gas properties, at cost	**44,775**	12,824
Accumulated depletion and impairment	**(26,446)**	(3,478)
Net Book Value	**18,329**	9,346
Furniture and fixtures, at cost	**567**	174
Accumulated depreciation	**(495)**	(128)
Net Book Value	**72**	46
Property, plant and equipment assets, end of period	**18,401**	9,392

At December 31, 2015 for the purposes of the depletion calculation, US$3.4 million (December 31, 2014 – US$2.4 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Intangible Exploration and Evaluation Assets

The following table shows the cumulative costs for the intangible exploration and evaluation assets on all the Company's oil and gas properties:

$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Exploration and evaluation assets, beginning of period	**16,460**	8,520
Additions	**3,728**	11,670
Acquisitions (business combination)	**3,267**	–
Transfers to PP&E	**–**	(963)
Transfers to exploration expense	**18**	(2,767)
Exploration and evaluation assets, end of period	**23,473**	16,460

The E&E additions of US$3.7 million were incurred in South Disouq (points i to ii), Egypt and Bakassi West (points iii to v), Cameroon concessions and relate to i) purchase of dynamite for the 3D seismic campaign – US$1.1 million, ii) mobilization costs – US$0.3 million, iii) geological and geophysical technical work – US$0.4 million, iv) Geotechnical and site surveys pre-drilling for US$0.8 million, v) well planning costs of US$0.8 million and vi) admin and general overheads – US$0.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Share capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in one or more series. The common shares of SDX trade on the TSX Venture Exchange under the symbol SDX. The information shown below is for SDX post combination only and for the three months ended December 31, 2015.

SDX, formerly Sea Dragon Energy Inc. undertook a 35:1 share consolidation in September 2015 and including 2014 comparatives would confuse the reader of the 2015 Annual Report. Madison was a private company whose shares were not freely traded.

TRADING STATISTICS	THREE MONTHS ENDED DECEMBER 31 2015
High *(CDN)*	**$1.05**
Low *(CDN)*	**$0.43**
Average Volume	**29,669**

The following table summarizes the outstanding common shares, options and warrants as at April 29, 2016, December 31, 2015, September 30, 2015 and December 31, 2014 for SDX Energy Inc. pre and post combination.

OUTSTANDING AS AT:	APRIL 29, 2016	DECEMBER 31, 2015	SEPTEMBER 30, 2015	DECEMBER 31, 2014
Common shares				
SDX Energy Inc. post combination	37,642,067	37,642,067	–	–
Sea Dragon Energy Inc. - pre combination	–	–	10,755,973	376,459,358
Madison Petrogas Ltd - pre combination	–	–	56,348,080	56,348,080
Warrants				
SDX Energy Inc. post combination	610,743	610,743	–	–
Madison Petrogas Ltd - pre combination	–	–	1,280,000	1,280,000
Options		–		
SDX Energy Inc. post combination	2,650,000	2,650,000	–	–
Sea Dragon Energy Inc. - pre combination	–	–	–	33,200,000
Madison Petrogas Ltd - pre combination	–	–	–	4,950,000

The following table summarizes the outstanding options as at December 31, 2015:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
EXERCISE PRICE RANGE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE
$0.63	**2,650,000**	**4.9 years**	**883,325**	**4.9 years**

Stock based compensation

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company.

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital.

Effective October 1, 2015, and prior to the closing of the business combination between SDX Energy Inc., formerly Sea Dragon Energy Inc., and Madison, both the Company and Madison cancelled all outstanding stock options. Written agreement was obtained from all directors, officers and employees.

The Company cancelled 28,900,000 stock options with a weighted average exercise price of CDN$0.09 and the directors, officers and employees of the Company each received a nominal payment of CDN$1.00 for their cancelled options.

Madison cancelled 5,630,000 stock options with a weighted average exercise price of CDN$0.91. The directors, officers and employees of Madison received cash compensation for cancelled options, based on the Black Scholes model, of CDN$300,083.

Post business combination the enlarged Company introduced a new option program. Pursuant to a Board Resolution effective November 30, 2015 the Company granted Options to acquire 2,650,000 common shares at an exercise price of CDN$0.63 per common share. The Options have a three year vesting period and expire five years from the anniversary date.

For the year ended December 31, 2015 the Company recorded stock based compensation of US$0.8 million (2014 – US$1.1 million) in relation to the previously granted 5,630,000 Madison options and the new SDX options.

Capital Resources

As at December 31, 2015 the Company had working capital of approximately US$11.6 million. The Company expects to fund its 2016 capital program through funds from operations, cash on hand and the raising of equity.

As at December 31, 2015, the Company had cash and cash equivalents of US$8.2 million compared to US$17.9 million as at December 31, 2014. The company utilized US$9.8 million during 2015, please see sources and uses table on the next page.

As at December 31, 2015, the Company had US$6.7 million in accounts receivable outstanding compared to US$3.3 million as at December 31, 2014. Approximately US$5.0 million is due from a government of Egypt controlled corporation (EGPC) for oil sales and production service fees; US$2.0 million is expected to be received in the normal course of operations; the remaining US$3.0 million is with-held as a rolling guarantee towards the work program for the South Disouq concession.

Subsequent to the year end the Company collected US$2.2 million from EGPC for accounts receivables; US$2.0 million related to outstanding trade receivables as at December 31, 2015.

The following table outlines the Company's working capital. Working capital is defined as current assets less current liabilities, and includes drilling inventory materials which may not be immediately monetized.

$000's	DECEMBER 31, 2015	DECEMBER 31, 2014
Current Assets		
Cash and cash equivalents	**8,170**	17,935
Trade and other receivables	**6,678**	3,306
Inventory	**1,188**	–
Current Assets	**16,036**	21,241
Current Liabilities		
Trade and other payables	**3,556**	1,686
Debentures	**–**	2,207
Current income taxes	**928**	5,142
Current Liabilities	**4,484**	9,035
Working Capital	**11,552**	12,206

The movement in working capital of US$0.7 million since December 31, 2014 for the combined entity SDX Energy Inc., formerly Sea Dragon Energy Inc. and Madison Petrogas Ltd, reflects i) cash outflow of US$9.8 million, ii) increased trade receivables of US$3.4 million, iii) inventory US$1.2 million, iv) increased trade payables of US$1.9 million, v) the repayment of the debentures of US$2.2 million, and vi) the payment of current income taxes of US$4.3 million.

The following table outlines the Company's sources and uses of cash for the three and twelve months ended December 31, 2015 and 2014:

	PRIOR	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	QUARTER	**2015**	2014	**2015**	2014
Sources:					
Funds from operations	(744)	**(934)**	2,652	**1,902**	17,020
Cash from disposal of office assets	–	**8**	–	**8**	–
Dividends received	–	**–**	407	**917**	1,110
Sea Dragon Energy Inc. net working capital as a result of the business combination effective October 1, 2015	–	**3,911**	–	**3,911**	–
Changes in non-cash working capital	2,055	**–**	1,103	**–**	12,941
	1,311	**2,985**	4,162	**6,738**	31,071
Uses:					
Property, plant and equipment expenditures	(447)	**14**	(95)	**(1,392)**	(1,964)
Exploration and evaluation expenditures	(350)	**(2,419)**	(590)	**(3,728)**	(11,670)
Repayment of debentures	–	**–**	–	**(2,052)**	–
Repayment of bank facility	–	**(1,650)**	–	**(1,650)**	–
Investment in associate	(48)	**–**	–	**–**	–
Income taxes paid	(837)	**–**	–	**(4,933)**	(4,430)
Effect of foreign exchange on cash and cash equivalents	(100)	**(150)**	(416)	**(565)**	(615)
Changes in non-cash working capital	–	**(2,602)**	–	**(2,183)**	–
	(1,782)	**(6,807)**	(1,101)	**(16,503)**	(18,679)
Increase/(decrease) in cash	(471)	**(3,822)**	3,061	**(9,765)**	12,392
Cash and cash equivalents at beginning of period	12,463	**11,992**	14,874	**17,935**	5,543
Cash and cash equivalents at end of period	11,992	**8,170**	17,935	**8,170**	17,935

The Company's funds from operations for the year ended December 31, 2015 compared to the prior year has decreased by US$15.1 million due to:

i) a decrease of US$13.2 million in net revenues as a result of the declining oil price and a reduction in production service fee volumes, partially offset by the inclusion in Q4, 2015 of the NW Gemsa oil revenue due to the business combination;

ii) an increase in operating costs of US$1.3 million as a result of the provision for the relinquishment of the Shukheir Marine concession and inclusion of the operating expenses incurred by the NW Gemsa concession during Q4, 2015;

iii) an increase of US$1.9 million in general and administrative costs as a result of one-off transaction and restructuring costs due to the business combination;

iv) offset by a decrease in finance costs, which includes foreign exchange of US$1.1.

Financial Instruments

The Company is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The following discussion reviews material financial risks, quantifies the associated exposures, and explains how these risks, and the Company's capital are managed.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates could affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the United States dollar and other currencies but also world economic events that impact the perceived levels of supply and demand. The Company may hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company's production is sold on the daily average price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company will not enter into commodity contracts other than to meet the Company's expected sale requirements.

At December 31, 2015 the Company did not have any outstanding derivatives in place.

Foreign currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting and functional currency of the Company is United States dollars (US$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the Egyptian Pound (EGP) and the US$, Sterling (GBP) and the US$ and the Canadian Dollar (CAD$) and US$. The majority of capital expenditures are incurred in US$ and EGP and oil and service fee revenues are received in both US$ and EGP. The Company is able to utilize EGP to fund its Egyptian office general and administrative expenses and to part-pay cash calls for both capital and operating expenditure therefore reducing the Company's exposure to foreign exchange risk during the period.

The table below shows the Company's exposure to foreign currencies for its financial instruments:

As at December 31, 2015	TOTAL PER FS[1]	US$	EGP	EUR	CAD	GBP
	US$ EQUIVALENT					
Cash and cash equivalents	8,170	7,124	785	54	48	159
Trade and other receivables	6,678	6,128	61	23	75	391
Trade and other payables	(3,556)	(2,822)	(4)	(52)	(398)	(280)
Current income taxes	(928)	–	(928)	–	–	–
Balance sheet exposure	10,364	10,430	(86)	25	(275)	270

[1] *denotes Financial Statements*

The average exchange rate during the year ended December 31, 2015 was 1 US$ equals:

AVERAGE: 1 January 2015 to 31 December 2015

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.2783	0.6542	0.9012	7.6849

AVERAGE: 1 January 2014 to 31 December 2014

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.1041	0.6072	0.7536	7.0545

The exchange rate at December 31, 2015 was 1 US$ equals:

PERIOD END: 31 December 2015

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
December 31, 2015	1.3869	0.6755	0.9168	7.8041

PERIOD END: 31 December 2014

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
December 31, 2014	1.1627	0.6437	0.8226	7.1296

Trade and other payables

The foreign currency risk from a trade and other payables perspective is due to the fact that the Company's operations are conducted in Egypt and Cameroon and its corporate offices are in London and Canada with listing and regulatory costs in Canada.

As at December 31, 2015 and 2014, the Company's trade and other payables is as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Current		
Trade payables	**198**	–
Accruals	**1,284**	182
Other payables	**2,074**	1,504
	3,556	1,686

Trade payables of US$0.2 million are due to suppliers of the Company's corporate office.

Accruals comprise South Disouq training fees and general and administrative costs related to restructuring, audit, tax, legal, corporate services and reserve reporting fees.

Other payables comprise an estimated liability of US$1.1 million related to the relinquishment of the Shukheir Marine concession, partner current accounts of US$0.7 million for the NW Gemsa and Cameroon concessions and UK payroll taxes and deferred payroll of US$0.3 million.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint operations partners, oil and natural gas marketers, and cash held with banks. The maximum exposure to credit risk at the end of the period is as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Cash and cash equivalents	**8,170**	17,935
Trade and other receivables	**6,678**	3,306
Total	**14,848**	21,241

Trade and other receivables:

All of the Company's operations are conducted in Egypt and Cameroon. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company does not anticipate any default as it expects continued payment from customers

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Current		
Government of Egypt controlled corporations	**5,018**	3,272
Joint venture partners	**862**	–
Other	**798**	34
Total trade and other receivables	**6,678**	3,306

Current receivables of US$5.0 million are related to oil sales and production service fees due from EGPC (December 31, 2014: US$3.3 million), a Government of Egypt controlled corporation. Receivables in respect of oil sales and service fees are normally collected in one to two months following production. The Company expects to collect outstanding receivables of US$0.8 million for NW Gemsa and US$1.2 million for Block – H Meseda, in the normal course of operations; the remaining US$3.0 million being the pledged Shukheir Marine receivables.

The Shukheir Marine trade receivables of US$3.0 million relate to invoices withheld as a rolling production guarantee for the work program of the South Disouq concession. Please see Note 8 of the Financial Statements for further details.

The joint venture partners receivables of US$0.9 million relates to the joint venture partner accounts for Block-H Meseda (US$0.1 million) and South Disouq (US$0.8 million).

The other receivables of US$0.8 million consist of US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.3 million related to prepayments, US$0.2 million for GST/ VAT and US$0.1 million for other items.

As at December 31, 2015 and 2014, the Company's trade and other receivables is aged as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Current		
Current (less than 90 days)	**3,364**	3,272
Past due (more than 90 days)	**3,314**	34
Total - current	**6,678**	3,306

The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have increased by US$3.3 million when compared to December 31, 2014. This increase is due to the US$3.0 million Shukheir Marine pledged receivables and represents April to October 2014 oil sales invoices, US$0.2 million for accrued gas and liquids revenue and US$0.1 million held by EGPC for a well commitment in Block H - Meseda.

Subsequent to December 31, 2015 the Company collected US$2.2 million from a government of Egypt controlled corporation for NW Gemsa and Block-H Meseda receivables, thereby reducing the current (less than 90 days) balance.

Cash and cash equivalents

The Company limits its exposure to credit risk by only investing in liquid securities and only with highly rated counterparties. The Company's cash and cash equivalents are currently held by banks with A or AA ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Company defines and computes its capital as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Equity	**55,246**	39,449
Working capital [(1)]	**(11,552)**	(12,206)
Total	**43,694**	27,243

[(1)] *Working capital is defined as current assets less current liabilities.*

The Company's objective when managing its capital is to ensure it has sufficient capital to maintain its ongoing operations, pursue the acquisition of interests in producing or near to production oil and gas properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its interests in its existing properties and to pursue other opportunities.

The working capital has decreased in the year to December 31, 2015 when compared to December 31, 2014 by US$0.7 million due to; i) a reduction in cash and cash equivalents of US$9.8 million, ii) increased trade receivables of US$3.4 million, iii) inventory of US$1.2 million, iv) increased trade payables of US$1.9 million, v) the repayment of the debentures of US$2.2 million and vi) the payment of current income taxes of US$4.2 million.

ACCOUNTING POLICIES AND ESTIMATES

The Company is required to make judgments, assumptions and estimates in the application of accounting policies that could have a significant impact on our financial results. Actual results may differ from those estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further information on the basis of presentation and our significant accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2015.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective January 2015.

However there was a change in accounting policy in relation to the depreciation of office assets. SDX Energy Inc., formerly Sea Dragon Energy Inc., recognized depreciation in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment whereas Madison Petrogas Ltd.'s depreciation policy was to depreciate on a declining balance basis at rates of 20% to 50% approximating to their estimated useful lives. The change in policy was immaterial to the Company and the office assets in question were sold during October 2015 as a result of the business combination. SDX Energy Inc. continues to adopt the straight-line basis for office assets.

Further information on the accounting policies and estimates can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2015.

New standards and interpretations not yet adopted

At the date of authorization of the consolidated financial statements, the International Accounting Standards Board ("IASB) has issued the following new and revised standards which are not yet effective for the relevant periods:

IFRS 9 – Financial Instruments ("IFRS 9")

In July 2014, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments – Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2018. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014 and will provide a more structured approach to measuring and recognizing revenue. The new guidance includes a five-step recognition and measurement approach and enhanced qualitative disclosure requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for annual periods beginning on or after January 1, 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures (simplified transition method). The Company is assessing the impact of this standard on the consolidated financial statements.

IFRS 16 – Leases ("IFRS 16")

On January 13, 2016, the IASB published IFRS 16 which replaces the current guidance in IAS 17. IFRS 16 requires lessees to recognize a lease liability reflecting the future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15 is applied. The Company is assessing the impact of this new standard on its consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the twelve months of 2015. Further information on future changes in accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2015.

BUSINESS RISK ASSESSMENT

There are a number of inherent business risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact to the Company.

Political Risk

SDX operates in Egypt and Cameroon which have different political, economic and social systems compared to North America and which subject the Company to a number of risks not within the control of the Company. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, corruption and the risk of actions by terrorist or insurgent groups, changes in laws and policies governing operations of foreign-based companies, economic and legal sanctions and other uncertainties arising from foreign governments, any of which could adversely affect the economics of exploration or development projects.

Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. Depending on the future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favorable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If the revenues from the Company's reserves decrease as a result of lower oil prices or otherwise, it will impact its ability to expend the necessary capital to replace its reserves or to maintain its production. If cash flow from operations are not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt, equity, or asset dispositions will be available to meet these requirements or available on acceptable terms. In addition, cash flow is influenced by factors which the Company cannot control, such as commodity prices, exchange rates, interest rates and changes to existing government regulations and tax and royalty policies.

Exploration, Development and Production

The long-term success of SDX will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. These risks are mitigated by SDX through the use of skilled staff, focusing exploration efforts in areas in which the Company has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods, and controlling costs to maximize returns. Despite these efforts, oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that SDX will be able to locate satisfactory properties for acquisition or participation or that the Company's expenditures on future exploration will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to accurately project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, infrastructure and operating costs. In addition, drilling hazards and/or environmental damage could greatly increase the costs of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-in of wells resulting from extreme weather conditions or natural disasters, insufficient transportation capacity or other geological and mechanical conditions. As well, approved activities may be subject to limited access windows or deadlines which may cause delays or additional costs. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The nature of oil and gas operations exposes SDX to risks normally incident to the operation and development of oil and natural gas properties, including encountering unexpected formations or pressures, blow-outs, and fires, all of which could result in personal injuries, loss of life and damage to the property of the Company and others. The Company has both safety and environmental policies in place to protect its operators and employees, as well as to meet the regulatory requirements in those areas where it operates. In addition, the Company has liability insurance policies in place, in such amounts as it considers adequate. The Company will not be fully insured against all of these risks, nor are all such risks insurable.

Oil and Natural Gas Prices

The price of oil and natural gas will fluctuate based on factors beyond the Company's control. These factors include demand for oil and natural gas, market fluctuations, the stability of regional state-owned monopolies to control gas prices, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas. Fluctuations in price will have a positive or negative effect on the revenue to be received by the Company.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids, reserves and cash flows to be derived there from, including many factors beyond the Company's control. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows there from are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected there from prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

The Company's actual future net cash flows as estimated by independent reserve engineers will be affected by many factors which include, but are not limited to: actual production levels; supply and demand for oil and natural gas; curtailments or increases in consumption by oil and natural gas purchasers; changes in governmental regulation; taxation changes; the value of the Canadian dollar and US$; and the impact of inflation on costs.

Actual production and cash flows derived there from will vary from the estimates contained in the applicable engineering reports. The reserve reports are based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived there from contained in the engineering reports will be reduced to the extent that such activities do not achieve the level of success assumed in the calculations.

Reliance on Operators and Key Employees

To the extent the Company is not the operator of its oil and natural gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and largely is unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company has no key-man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Government Regulations

The Company may be subject to various laws, regulations, regulatory actions and court decisions that can have negative effects on the Company. Changes in the regulatory environment imposed upon the Company could adversely affect the ability of the Company to attain its corporate objectives. The current exploration, development and production activities of the Company require certain permits and licenses from governmental agencies and such operations are, and will be, governed by laws and regulations governing exploration, development and production, labor laws, waste disposal, land use, safety, and other matters. There can be no assurance that all licenses and permits that the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulation would not have an adverse effect on any project that the Company may undertake.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in Egypt and Cameroon. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines, and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company or its subsidiaries, as the case may be, becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Prior to drilling, the Company or the operator will obtain insurance in accordance with industry standards to address certain of these risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company or its subsidiaries, as the case may be, may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The occurrence of a significant event that the Company may not be fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position.

Regulatory Matters

The Company's operations will be subject to a variety of federal and provincial or state laws and regulations, including income tax laws and laws and regulations relating to the protection of the environment. The Company's operations may require licenses from various governmental authorities and there can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out planned exploration and development projects.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damages to persons or property and possible environmental damage.

Although the Company has obtained liability insurance in an amount it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Repatriation of earnings

All of the Company's production and earnings are generated in Egypt. Currently there are no restrictions on foreign entities repatriating earnings from Egypt. However, there can be no assurance that restrictions on repatriation of earnings from Egypt will not be imposed in the future.

Disruptions in Production

Other factors affecting the production and sale of oil and gas that could result in decreases in profitability include: (i) expiration or termination of permits or licenses, or sales price redeterminations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) changes in the market and general economic conditions, equipment replacement or repair, fires, civil unrest or other unexpected geological conditions that can have a significant impact on operating results.

Foreign Investments

All of the Company's oil investments are located outside of Canada. These investments are subject to the risks associated with foreign investment including tax increases, royalty increases, re-negotiation of contracts, currency exchange fluctuations and political uncertainty. The jurisdictions in which the Company operates, Egypt and Cameroon, have well-established fiscal regimes.

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds, EGP, EURO and GBP.

Competition

The Company operates in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including U.S.-based and foreign companies doing business in Egypt. The Company faces intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in seeking oil and gas exploration licences and production licences in Egypt; and acquiring desirable producing properties or new leases for future exploration.

The Company believes it has significant in-country relationships within the business community and government authorities needed to obtain cooperation to execute projects.

Disclosure Controls and Procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the period ended December 31, 2015. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109 as at December 31, 2015.

Income Statement Reconciliation

The table below is a reconciliation of the audited Statement of Comprehensive Income and associated operating data from the audited Financial Statements for the 12 months to December 31, 2015 to the full twelve months of proforma unaudited operating data which is discussed within the remainder of this MD&A.

	TWELVE MONTHS ENDED DECEMBER 31			TWELVE MONTHS ENDED DECEMBER 31		
	2015	2015	**2015**	**2014**	2014	**2014**
$000's except per unit amounts	SDX ENERGY INC AS PER FINANCIAL STATEMENTS[1]	SEA DRAGON ENERGY INC (PRE-COMBINATION)	FULL TWELVE MONTHS OF COMBINED SDX GROUP - PRO FORMA UNAUDITED	SDX ENERGY INC AS PER FINANCIAL STATEMENTS[2]	SEA DRAGON ENERGY INC (PRE-COMBINATION)	FULL TWELVE MONTHS OF COMBINED SDX GROUP - PRO FORMA UNAUDITED
FINANCIAL						
Oil revenue	**2,322**	10,972	**13,294**	**–**	46,126	**46,126**
Royalties	**(686)**	(4,781)	**(5,467)**	**–**	(26,043)	**(26,043)**
Net Oil revenue	**1,636**	6,191	**7,827**	**–**	20,083	**20,083**
Gas revenue	**–**	–	**–**	**–**	257	**257**
Royalties	**–**	–	**–**	**–**	(319)	**(319)**
Net Gas revenue	**–**	–	**–**	**–**	(62)	**(62)**
NGL revenue	**–**	–	**–**	**–**	415	**415**
Royalties	**–**	–	**–**	**–**	(517)	**(517)**
Net NGL revenue	**–**	–	**–**	**–**	(102)	**(102)**
Production service fee revenue	**9,736**	–	**9,736**	**24,533**	–	**24,533**
Total Net Revenue	**11,372**	6,191	**17,563**	**24,533**	19,919	**44,452**
Operating Costs	**(4,973)**	(1,066)	**(6,039)**	**(3,639)**	(7,991)	**(11,630)**
Netback (pre tax)	**6,399**	5,125	**11,524**	**20,894**	11,928	**32,822**
Exploration and evaluation expense	**(73)**	(557)	**(630)**	**(2,767)**	(395)	**(3,162)**
Depletion, depreciation and amortization	**(2,057)**	(1,718)	**(3,775)**	**(1,602)**	(4,639)	**(6,241)**
Impairment expense	**(6,842)**	–	**(6,842)**	**–**	(2,820)	**(2,820)**
Impairment of materials inventory	**–**	–	**–**	**–**	(1,235)	**(1,235)**
Stock based compensation	**(761)**	(140)	**(901)**	**(1,064)**	(447)	**(1,511)**
Equity in income of associate	**1,024**	–	**1,024**	**1,130**	–	**1,130**
Loss on disposal of office assets	**(3)**	–	**(3)**	**–**	–	**–**
Gain/(Loss) on disposal of materials inventory	**–**	235	**235**	**–**	(111)	**(111)**
Loss on disposal of Kom Ombo concession	**–**	–	**–**	**–**	(351)	**(351)**
General and administrative expenses	**(4,770)**	(3,132)	**(7,902)**	**(2,898)**	(4,651)	**(7,549)**
Operating (Loss)/Income	**(7,083)**	(187)	**(7,270)**	**13,693**	(2,721)	**10,972**
Net Finance Expense	**(96)**	(605)	**(701)**	**(1,009)**	(1,532)	**(2,541)**
Gain on acquisition	**18,289**	–	**18,289**	**–**	–	**–**
Current Income tax expense	**(1,168)**	(1,250)	**(2,418)**	**(4,308)**	(4,707)	**(9,015)**
Deferred Income tax expense	**105**	–	**105**	**(20)**	–	**(20)**
Net Income/(loss)	**10,047**	(2,043)	**8,005**	**8,356**	(8,960)	**(604)**
Other comprehensive loss						
Foreign exchange	**(647)**	–	**(647)**	**(420)**	–	**(420)**
Total comprehensive income/(loss) for the year	**9,400**	(2,043)	**7,358**	**7,936**	(8,960)	**(1,024)**

(CONTINUED)

	TWELVE MONTHS ENDED DECEMBER 31			TWELVE MONTHS ENDED DECEMBER 31		
	2015	2015	2015	2014	2014	2014
$000's except per unit amounts	SDX ENERGY INC AS PER FINANCIAL STATEMENTS[1]	SEA DRAGON ENERGY INC (PRE-COMBINATION)	FULL TWELVE MONTHS OF COMBINED SDX GROUP - PRO FORMA UNAUDITED	SDX ENERGY INC AS PER FINANCIAL STATEMENTS[2]	SEA DRAGON ENERGY INC (PRE-COMBINATION)	FULL TWELVE MONTHS OF COMBINED SDX GROUP - PRO FORMA UNAUDITED
OPERATIONAL						
Oil Sales (bbl/d)	**652**	794	**759**		1,346	**1,346**
Gas Sales (bbl/d)		–		**–**	705	**705**
NGL Sales (bbl/d)		–			16	**16**
Production service fee (bbl/d)	**760**	–	**760**	**894**	–	**894**
Total boe/d	**1,412**	794	**1,519**	**894**	1,479	**2,373**
Oil sales volumes (bbls)	**59,988**	216,868	**276,856**	**–**	491,126	**491,126**
Gas sales volumes (mcf)	**–**	–	**–**	**–**	257,310	**257,310**
NGL sales volumes (bbls)	**–**	–	**–**	**–**	5,811	**5,811**
Production service fee volumes (bbls)	**277,407**	–	**277,407**	**326,479**	–	**326,479**
Total sales volumes (boe)	**337,395**	216,868	**554,263**	**326,479**	539,822	**866,301**
Brent Oil Price (US$/bbl)	**$52.30**	$55.24	**$52.30**	**$98.94**	$98.94	**$98.94**
West Gharib Oil price (US$/bbl)	**$42.81**		**$42.81**	**$90.16**	–	**$90.16**
Realized oil price (US$/bbl)	**$38.70**	$50.59	**$48.02**	**$0.00**	$93.92	**$93.92**
Realized gas price (US$/bbl)		–			$1.00	**$1.00**
Realized NGL price (US$/bbl)		–			$71.47	**$71.47**
Realized Service fee (US$/bbl)	**$35.10**	–	**$35.10**	**$75.15**	–	**$75.15**
Net Realized (US$/boe)	**$35.74**	$50.59	**$41.55**	**$75.15**	$86.70	**$82.34**
Total Royalties (US$/boe)	**$2.03**	$22.04	**$9.86**	**$0.00**	$49.79	**$31.03**
Operating costs (US$/boe)	**$14.74**	$4.91	**$10.89**	**$11.15**	$14.80	**$13.42**
Netback (US$/boe)	**$18.97**	$23.64	**$20.80**	**$64.00**	$22.11	**$37.89**
Capital expenditures	**5,120**	1,239	**6,359**	**13,634**	**4,315**	**17,949**

1 *SDX Energy Inc contains financial information from the Statement of Comprehensive Income; see Financial Statements. It represents a full twelve months for Madison Petrogas Ltd and three months for Sea Dragon Energy Inc. in accordance with IFRS-3 Business Combinations.*

2 *SDX Energy Inc contains financial information from the Statement of Comprehensive Income; see Financial Statements. It represents a full twelve months for Madison Petrogas Ltd only in accordance with IFRS-3 Business Combinations.*

PROFORMA UNAUDITED FINANCIAL INFORMATION

As per the audited Financial Statements for the twelve months ended December 31, 2015, the Company recorded total comprehensive income of US$9.4 million, compared to US$7.9 million for the twelve months ended December 31, 2014.

The following table, however, shows the summarized Net Earnings (Total comprehensive income/(loss)) for the year as if the business combination had been in effect for a full twelve months of 2015 and 2014 comparators. The constituent parts of this table are shown in more detail on the previous page.

	YEAR ENDED DECEMBER 31	
$000's except per unit amounts	**2015**	2014
Revenue, net of royalties	**17,563**	44,452
Operating Costs	**(6,039)**	(11,630)
Netback (pre tax)	**11,524**	32,822
Exploration and evaluation expense	**(630)**	(3,162)
Depletion, depreciation and amortization	**(3,775)**	(6,241)
Impairment expense	**(6,842)**	(2,820)
Stock based compensation	**(901)**	(1,511)
Dividends received	**1,024**	1,130
Loss on disposal of office assets	**(3)**	–
(Gain)/Loss on disposal of materials inventory	**235**	(111)
Impairment of materials inventory	**–**	(1,235)
Loss on disposal of Kom Ombo concession	**–**	(351)
General and administrative expenses	**(7,902)**	(7,549)
Operating (Loss)/income	**(7,270)**	10,972
Net finance expense	**(701)**	(2,541)
Gain on acquisition	**18,289**	–
Income before income taxes	**10,318**	8,431
Current income tax expense	**(2,418)**	(9,015)
Deferred income tax expense	**105**	(20)
Net Income/(loss)	**8,005**	(604)
Other comprehensive loss		
Foreign exchange	**(647)**	(420)
Total comprehensive income/(loss) for the year	**7,358**	(1,024)

PROFORMA UNAUDITED FINANCIAL INFORMATION

$000's unless stated	PRIOR QUARTER [1]	THREE MONTHS ENDED DECEMBER 31 2015	THREE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2015	TWELVE MONTHS ENDED DECEMBER 31 2014
OPERATIONAL					
Oil revenue	2,848	**2,322**	8,115	**13,294**	46,126
Royalties	(1,058)	**(686)**	(4,208)	**(5,467)**	(26,043)
Net Oil revenue	1,790	**1,636**	3,907	**7,827**	20,083
Gas revenue	–	**–**	–	**–**	257
Royalties	–	**–**	(208)	**–**	(319)
Net Gas revenue	–	**–**	(208)	**–**	(62)
NGL revenue	–	**–**	–	**–**	415
Royalties	–	**–**	(344)	**–**	(517)
Net NGL revenue	–	**–**	(344)	**–**	(102)
Production service fee revenue	2,215	**1,806**	4,831	**9,736**	24,533
Total Net Revenue	4,005	**3,442**	8,186	**17,563**	44,452
Operating Costs	(1,467)	**(2,483)**	(3,131)	**(6,039)**	(11,630)
Netback (pre tax)	2,538	**959**	5,055	**11,524**	32,822
Oil Sales (bbl/d)	674	**652**	1,239	**759**	1,346
Gas Sales (mcf/d)	–	**–**	–	**–**	705
NGL Sales (bbl/d)	–	**–**	–	**–**	16
Production service fee (bbl/d)	723	**704**	904	**760**	894
Total boe/d	1,397	**1,356**	2,143	**1,519**	2,373
Oil sales volumes (bbls)	62,031	**59,988**	113,999	**276,856**	491,126
Gas sales volumes (mcf)	–	**–**	–	**–**	257,310
NGL sales volumes (bbls)	–	**–**	–	**–**	5,811
Production service fee volumes (bbls)	66,517	**64,751**	83,189	**277,407**	326,479
Total sales volumes (boe)	128,548	**124,739**	197,188	**554,263**	866,301
Brent Oil Price (US$/bbl)	$50.26	**$43.56**	$76.37	**$52.30**	$98.94
West Gharib Oil Price (US$/bbl)	$40.71	**$34.35**	$69.82	**$42.81**	$90.16
Realized oil price (US$/bbl)	$45.91	**$38.70**	$71.18	**$48.02**	$93.92
Realized gas price (US$/bbl)	–	**–**	–	**–**	$1.00
Realized NGL price (US$/bbl)	–	**–**	–	**–**	$71.47
Realized Service fee (US$/bbl)	$33.31	**$27.90**	$58.07	**$35.10**	$75.15
Net Realized price (US$/boe)	$39.39	**$33.09**	$65.65	**$41.55**	$82.34
Total Royalties (US$/boe)	$8.23	**$5.50**	$24.14	**$9.86**	$31.03
Operating costs (US$/boe)	$11.41	**$19.90**	$15.88	**$10.89**	$13.42
Netback (US$/boe)	$19.75	**$7.69**	$25.63	**$20.80**	$37.89
Capital expenditures	1,578	**2,404**	(520)	**6,359**	17,949

(1) Three months ended September 30, 2015

Oil Sales Volumes (relates to NW Gemsa and Shukheir Marine only)

Total oil sales volumes for the three and twelve months ended December 31, 2015 averaged 652 bbl/d and 759 bbl/d compared to 1,239 bbl/d and 1,346 bbl/d for the comparative periods in the prior year.

Total sales volumes fell by 214,270 barrels, 44%, to 276,856 in 2015 compared to 491,126 in 2014. 112,512 barrels of this decline relates to the relinquishment of the Shukheir Marine concession, effective January 31, 2015. The relinquishment of Shukheir Marine contributed a net reduction of 308 bbl/d in 2015 compared to 2014.

The NW Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline with 2015 volumes showing a 101,758 barrel, 27%, decline to 266,763 compared to 2014. This natural decline contributed a net reduction of 279 bbl/d in 2015 compared to 2014.

The crude oil sales volumes by concession are shown in the table below:

	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2015	2014	**2015**	2014
N W Gemsa	62,031	**59,988**	84,861	**266,763**	368,521
Shukheir Marine	–	**–**	29,138	**10,093**	122,605
Total Crude Oil Sales	62,031	**59,988**	113,999	**276,856**	491,126

Production Service Fee volumes (relates to Meseda only)

The Company began oil production from the Meseda area of Block H in late 2011, and as a result has recorded service fee revenue relating to the oil production that was delivered to the State Oil Company ("EGPC"). The Company is entitled to a service fee of between 19.0% and 19.25% of the delivered volumes, and has a 50% working/paying interest. Service fee is based on the current market price of West Gharib crude oil, adjusted for a quality differential.

Total production service fee volumes decreased by 49,072 barrels, 15%, to 277,407 compared to 2014. This was as a result of natural reservoir declines. This contributed to a net reduction of 134 bbl/d in 2015 compared to 2014.

The production service fee volumes are shown in the table below:

	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2015	2014	**2015**	2014
Meseda - Block H	66,517	**64,751**	83,189	**277,407**	326,479
Total Production Service Fee Volumes	66,517	**64,751**	83,189	**277,407**	326,479

Pricing

The Company is exposed to the volatility in commodity price markets for all of its oil sales and service fee volumes and changes in the foreign exchange rate between the Egyptian pound and the US dollar for oil revenues and capital and operational expenditure. The Operational and Financial Highlights table on the previous page outlines the changes in various benchmark commodity prices and economic parameters which affect the prices received for the Company's oil sales and service fee volumes.

For the three and twelve months ended December 31, 2015 the Company received an average price per barrel of oil of US$38.70 and US$48.02 compared to the average Brent Oil price ("Brent") of US$43.56 and US$52.30 per barrel; a discount of US$4.86 and US$4.28 per barrel respectively. The Company receives a discount to Brent due to the quality of the oil produced and a contracted discounted price levied by EGPC.

For the three and twelve months ended December 31, 2015 the Company received an average service fee per barrel of oil of US$27.90 and US$35.10 compared to the average West Gharib price of US$34.35 and US$42.81 per barrel; a discount of US$6.45 and US$7.71 per barrel respectively. The Company receives a discount to West Gharib due to the quality of the oil produced.

PROFORMA UNAUDITED FINANCIAL INFORMATION

During the three and twelve months ended December 31, 2015 the Brent price ranged from a low of US$35.26 per barrel on December 22, 2015 to a high of US$66.33 per barrel on May 13, 2015. The decrease in the oil price is due to over-supply in the market particularly from OPEC countries and US shale producers and lower demand as a result of lower growth in countries such as China. At this time, the Company does not hedge any of its production.

The Company commenced sales of gas and Natural Gas Liquids ("NGL") in February 2013 from the NW Gemsa concession. The operator continues to be in the process of addressing contractual invoicing with EGPC. No revenue or sales volumes have been recognized for the three and twelve months ended December 31, 2015; pending the issuance of invoices.

Crude Oil Sales

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	2015	2014	2015	2014
Crude oil sales	2,848	**2,322**	8,115	**13,294**	46,126
Per bbl	45.91	**38.70**	71.18	**48.02**	93.92

Crude oil sales for the three and twelve months ended December 31, 2015 were US$2.3 million and US$13.3 million, compared to US$8.1 million and US$46.1 million for the three and twelve months ended December 31, 2015.

The crude oil sales per concession were:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
NW Gemsa	2,848	**2,322**	6,112	**12,879**	34,944
Shukheir Marine	–	**–**	2,003	**415**	11,182
Total Crude Oil Sales	2,848	**2,322**	8,115	**13,294**	46,126

Variance from prior year

For the twelve months ended December 31, 2015 (compared to the prior year ending December 31, 2014) the decrease in revenue of US$32.8 million, 71%, to US$13.3 million is due to a decrease in realized sales price (US$12.7 million) or 28%, and a decrease in sales volume (US$20.1 million) or 43%.

As explained above the decrease in the sales volume compared to the prior year is due to the relinquishment of the Shukheir Marine concession effective January 31, 2015 and the NW Gemsa concession commencing decline after reaching plateau production during the fourth quarter of 2014.

$000's	
Twelve months ended December 31, 2014	46,126
Price variance	(12,709)
Production variance	(20,123)
Twelve months ended December 31, 2015	**13,294**

Production Service Fees

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	2015	2014	2015	2014
Production service fees	2,215	**1,806**	4,831	**9,736**	24,533
Per bbl	33.31	**27.90**	58.07	**35.10**	75.15

Production services fees from Meseda for the three and twelve months ended December 31, 2015 were US$1.8 million and US$9.7 million, compared to US$4.8 million and US$24.5 million for the three and twelve months ended December 31, 2014.

Variance from prior year

For the twelve months ended December 31, 2015 (compared to the prior year ending December 31, 2014) the decrease in production service fees of US$14.8 million, 60%, to US$9.7 million in 2015 is due to a decrease in realized price of US$11.1 million or, 45%, and a decrease in volumes of US$3.7 million, or 15%.

$000's	
Twelve months ended December 31, 2014	24,533
Price variance	(11,109)
Production variance	(3,688)
Twelve months ended December 31, 2015	**9,736**

Gas and Natural Gas Liquids ("NGL") Sales

The operator continues to be in the process of addressing contractual invoicing with EGPC. No revenue or sales volumes have been recognized for the three and twelve months ended December 31, 2015; pending issuance of invoices.

Royalties

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	2015	2014	2015	2014
Royalties	1,058	**686**	4,760	**5,467**	26,879
Per boe	8.23	**5.50**	24.14	**9.86**	31.03
Royalties as a percent of revenue (%)	37	**30**	59	**41**	58

Royalties fluctuate in Egypt from quarter to quarter due to changes in production and commodity prices impacting the amount of cost oil allocated to the contractors and thereby impacting the calculation of profit oil from which royalties are calculated.

Royalties per concession are as follows:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
NW Gemsa	1,058	**686**	3,912	**5,291**	22,145
Shukheir Marine	–	**–**	848	**176**	4,734
Total Royalties by Concession	1,058	**686**	4,760	**5,467**	26,879

Royalties per boe by concession are as follows:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
NW Gemsa	17.06	**11.43**	46.10	**19.83**	53.08
Shukheir Marine	–	**–**	29.11	**17.45**	38.61
Total Royalties by Concession	17.06	**11.43**	41.75	**19.75**	49.79

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The Concession agreements allow for the recovery of operating and capital costs through a cost oil allocation which has an impact on the government share of production as highlighted below:

CONCESSION	SDX's WI (1)	COST OIL TO CONTRACTORS (2)	CAPITAL COST RECOVERED (2)	OPERATING COST RECOVERED (2)	EXCESS OIL TO CONTRACTOR (3)	PROFIT OIL TO CONTRACTOR (4)
NW Gemsa *(up to 10,000 BOPD Gross)*	10%	30%	5 years	Immediate	Nil	16.1%
NW Gemsa *(10,000 BOPD to 25,000 BOPD Gross)*	10%	30%	5 years	Immediate	Nil	15.4%
NW Gemsa – Gas and LPG	10%	30%	5 years	Immediate	Nil	18.2%
Shukheir Marine	100%	40%	5 years (5)	Immediate	Nil	17.5%

(1) WI denotes the Company's Working interest

(2) Cost oil is the amount of oil revenue that is attributable to SDX and its joint venture partners (the "Contractor") subject to the limitation of the cost recovery pool. Oil revenue, up to a specified percentage is available for recovery by the Contractor for costs incurred in exploring and developing the concession. Operating costs and capital costs are added to a cost recovery pool (the "Cost Pool"). Capital costs for exploration and development expenditures are amortized into the Cost Pool over a specified number of years with operating costs being added to the Cost Pool as incurred.

(3) If the costs in the Cost Pool are less than the cost oil attributable to the Contractor, the shortfall, referred to as excess cost oil ("Excess Oil"), reverts 100 percent to the State in NW Gemsa and Shukheir Marine.

(4) Profit oil is the amount of oil revenue that is attributable to the Contractor.

(5) Under the original concession agreement, development expenditures were amortized over ten years. However, development expenditures incurred after July 27, 2005 effective date of the Amended Agreement shall be recoverable at the rate of 20 percent per year.

Direct operating costs

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	**2015**	2014	**2015**	2014
Direct operating costs	1,467	**2,483**	3,131	**6,039**	11,630
Per boe	11.41	**19.90**	15.88	**10.89**	13.42

Direct operating costs for the three and twelve months ended December 31, 2015 were US$2.5 million (US$19.90 per boe) and US$6.0 million (US$10.89 per boe), compared to US$3.1 million (US$15.88 per boe) and US$11.6 million (US$13.42 per boe) in the comparative periods of the prior year.

The direct operating costs for the three months ended December 31, 2015 show a higher per boe cost compared to 2014. This is due to the Company accounting for a relinquishment provision of US$1.2 million related to the Shukheir Marine concession. Excluding this adjustment from the quarter would result in direct operating costs of US$1.3 million and per boe cost of US$10.24.

The direct operating costs for the twelve months ended December 31, 2015 have decreased by US$5.4 million compared to 2014; a 47% decrease. The decrease in direct operating costs was due to relinquishment of the Shukheir Marine concession, effective January 31, 2015 which also had a higher direct operating cost per boe.

The direct operating costs per concession were:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	**2015**	2014	**2015**	2014
NW Gemsa	595	**377**	266	**1,922**	1,825
Shukheir Marine	–	**1,205**	1,706	**669**	6,160
Meseda - Block H	816	**897**	1,159	**3,387**	3,639
Other	56	**4**	–	**61**	6
Total Direct Operating Costs by Concession	1,467	**2,483**	3,131	**6,039**	11,630

The direct operating costs per boe per concession were:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
NW Gemsa	9.59	**6.28**	3.13	**7.20**	4.37
Shukheir Marine	–	**–**	58.55	**66.31**	50.24
Meseda - Block H	12.27	**13.85**	13.94	**12.21**	11.15
Other	–	**–**	–	**–**	–
Total Direct Operating Costs (US$/boe) by Concession	11.41	**19.90**	15.88	**10.89**	13.42

Current taxes

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
Current taxes	314	**346**	649	**2,418**	9,015

Pursuant to the terms of the Company's concession agreements for NW Gemsa and Shukheir Marine, the 40.4% corporate tax liability of the joint venture partners is paid by the government of Egypt controlled corporations ("Corporations") out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes the corporate taxes paid by the Corporations are presented gross and included in net oil revenues and income tax expense thereby having a net neutral impact on Net Income.

The Company also has a corporate tax liability in relation to its service agreement for Block H- Meseda. The Company's Egyptian subsidiary, Madison Egypt Limited, is subject to corporate tax on its profits at an income tax rate of 22.5%.

The Company also incurred 2014 corporation tax for Sea Dragon Energy (UK) Ltd which amounted to US$61k.

The current taxes per concession were:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
NW Gemsa	314	**255**	671	**1,414**	3,906
Shukheir Marine	–	**–**	143	**30**	801
Meseda - Block H	55	**91**	(165)	**913**	4,308
Other	61	**–**	–	**61**	–
Total Current Taxes by Concession	430	**346**	649	**2,418**	9,015

General and administrative costs

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
Wages and employee costs	2,241	**1,063**	1,024	**4,838**	3,621
Consultants - inc. PR/IR	59	**265**	532	**594**	1,185
Legal fees	58	**113**	(53)	**246**	226
Audit, tax and accounting services	168	**209**	255	**790**	644
Public company fees	48	**228**	51	**383**	209
Travel	93	**86**	216	**407**	606
Office expenses	211	**243**	193	**846**	722
IT expenses	38	**38**	70	**136**	286
Transaction costs	496	**–**	–	**496**	–
Service recharges	–	**(669)**	–	**(834)**	–
Total - Net G&A	3,412	**1,576**	2,288	**7,902**	7,459

General and administrative ("G&A") costs for the three and twelve months ended December 31, 2015 and 2014 were US$1.6 million and US$7.9 million, compared to US$2.3 million and US$7.5 million for the comparative periods in the prior year.

As a result of the business combination Madison Petrogas Ltd incurred restructuring and transaction costs in Qtr. 3, 2015 of US$1.5 million; US$1.0 million in relation to wages and employee costs for restructuring and US$0.5 million in transaction costs related to the business combination. The transaction costs of US$0.5 million have been separately disclosed in the table above.

G&A costs in the above table represent a full twelve months for SDX Energy Inc., formerly Sea Dragon Energy Inc. and Madison Petrogas Ltd.

The increase for the year of US$0.4 million, a 4.7% increase is due to the following:

- higher wages and employee costs as a result of internal restructuring due to the business combination;
- higher audit, tax and accounting services as a result of increased annual audit fees due to the business combination;
- higher public company fees due to higher Director's fees, filing fees, AGM costs and D & O insurance;
- higher office costs due to the cost of rental leases for two local offices in Cairo until June 2015 and the lease of a yard;
- transaction costs of US$0.5 million as a result of the business combination;
- offset by lower consultants fees as a result of a fixed price annual reserves audit fee, the cancellation of the PR and IR contracts during 2015 and a curtailment in the use of consultants during 2015;
- offset by lower travel – curtailment in travel related to business development;
- offset by lower IT costs as a result of the cancellation of software licence agreements;
- offset by service recharges related to the 2015 cross charging of technical and administrative time spent by the Company on its exploration assets.

The Company has identified US$5.5 million of one-off and restructuring costs; US$4.0 million for G&A, US$1.0 million for Finance costs and US$0.5 million for stock-based compensation, and anticipates that as a result of the business combination the following synergies can be obtained.

General and administrative costs

$000's	DECEMBER 31, 2015
Wages and employee costs	**2,394**
Consultants - inc. PR/IR	**400**
Legal fees	**651**
Audit, tax and accounting services	**102**
Public company fees	**158**
Travel	**172**
Office expenses	**124**
IT expenses	**2**
Total	**4,003**

Depletion, depreciation and amortization ("DD&A")

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	2015	2014	2015	2014
Depletion, depreciation and amortization	803	**837**	1,467	**3,775**	6,241
Per bbl	6.25	**6.71**	7.44	**6.81**	7.20

For the three and twelve months ended December 31, 2015, depletion, depreciation and amortization ("DD&A") was US$0.8 million and US$3.8 million, compared to US$1.5 million and US$6.2 million in the comparative periods in the prior year.

The DD&A per concession was:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2015	2014	2015	2014
NW Gemsa	439	**396**	599	**1,835**	2,398
Shukheir Marine	–	**–**	340	**184**	2,083
Meseda - Block H	324	**413**	479	**1,619**	1,585
Corporate - office assets	40	**28**	49	**137**	175
Total	803	**837**	1,467	**3,775**	6,241

Net Earnings

As per the Financial Statements for the twelve months ended December 31, 2015, the Company recorded Total Comprehensive Income of US$9.4 million, compared to US$7.9 million for the twelve months ended December 31, 2014.

The main components of the comprehensive income of US$9.4 million are:

- a gain on acquisition; due to the business combination of US$18.3 million;
- lower exploration and evaluation expenses of US$2.7 million;
- lower net finance expense of US$1.0 million;
- lower current income tax expense of US$3.1 as a result of lower revenues due to the falling oil price; offset by
- a fall in revenues of US$13.2 million as a result of the falling oil price;
- higher direct operating costs of US$1.3 million; of which US$1.2 million related to further costs for the relinquishment of the Shukheir Marine concession;
- an impairment expense of US$6.8 million related to the NW Gemsa concession.

PROFORMA UNAUDITED FINANCIAL INFORMATION

SUMMARY OF QUARTERLY RESULTS

The fiscal and operational quarterly results shown below include full quarterly information for SDX Energy Inc., formerly Sea Dragon Energy Inc. and Madison Petrogas Ltd prior to the business combination (pre-combination), effective October 1, 2015. The quarterly results for Q4, 2015 represent the first quarter for the newly combined group, SDX Energy Inc. post-combination.

SDX Energy Inc., formerly Sea Dragon Energy Inc. produces and sells via its concession agreement, oil, gas and NGL. Madison has a production service agreement and obtains a per barrel service fee.

FISCAL YEAR	2015				2014			
Financial *$000's*	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash, beginning of period								
SDX Energy Inc. post combination	**12,482**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	494	3,105	2,966	1,789	1,397	875	4,287
Madison Petrogas Ltd - pre combination	**–**	12,463	19,056	17,936	14,874	13,839	12,361	5,543
Cash, end of period								
SDX Energy Inc. post combination	**8,170**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	490	494	3,105	2,966	1,789	1,397	875
Madison Petrogas Ltd - pre combination	**–**	11,992	12,463	19,056	17,936	14,874	13,839	12,361
Working capital								
SDX Energy Inc. post combination	**11,552**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	3,911	2,838	2,243	5,055	6,317	6,148	5,747
Madison Petrogas Ltd - pre combination	**–**	11,943	13,634	15,028	12,206	12,456	12,157	14,908
Funds from operations								
SDX Energy Inc. post combination	**(934)**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	(1,152)	767	282	(1,261)	(77)	1,598	1,297
Madison Petrogas Ltd - pre combination	**–**	(744)	1,221	1,318	2,650	2,616	3,430	4,016
Funds from operations per share								
SDX Energy Inc. post combination	**(0.02)**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	(0.003)	0.002	0.001	(0.003)	(0.000)	0.004	0.003
Madison Petrogas Ltd - pre combination	**–**	(0.013)	0.022	0.023	0.047	0.046	0.061	0.071
Income/(loss) and comprehensive income/(loss)								
SDX Energy Inc. post combination	**8,542**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	(1,755)	230	(516)	(6,471)	(1,207)	(249)	(1,033)
Madison Petrogas Ltd - pre combination	**–**	(1,029)	1,110	777	(993)	1,913	3,199	3,816
Net Income/(loss) per share - basic								
SDX Energy Inc. post combination	**0.227**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	(0.005)	0.001	(0.001)	(0.017)	(0.003)	(0.001)	(0.002)
Madison Petrogas Ltd - pre combination	**–**	(0.013)	0.019	0.018	(0.012)	0.038	0.055	0.068
Capital expenditures								
SDX Energy Inc. post combination	**2,405**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	781	270	188	(1,204)	(349)	1,015	4,853
Madison Petrogas Ltd - pre combination	**–**	797	1,605	313	685	2,679	6,391	3,880
Total assets								
SDX Energy Inc. post combination	**60,016**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	28,258	29,145	38,011	40,283	45,587	47,119	40,026
Madison Petrogas Ltd - pre combination	**–**	42,912	44,333	49,425	49,091	50,345	53,470	45,274
Shareholders' equity								
SDX Energy Inc. post combination	**55,246**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	23,925	25,644	25,355	25,828	32,208	33,313	33,363
Madison Petrogas Ltd - pre combination	**–**	40,769	41,660	40,403	39,449	40,124	37,960	34,511
Common shares outstanding (000's)								
SDX Energy Inc. post combination	**37,642**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination		376,459	376,459	376,459	376,459	376,459	376,459	376,459
Madison Petrogas Ltd - pre combination		56,348	56,348	56,348	56,348	56,348	56,348	56,348
Warrants outstanding (000's)								
SDX Energy Inc. post combination	**611**	–	–	–	–	–	–	–
Sea Dragon Energy Inc. - pre combination	**–**	–	–	–	–	–	–	–
Madison Petrogas Ltd - pre combination	**–**	1,280	1,280	1,280	1,280	1,280	1,280	1,280

PROFORMA UNAUDITED FINANCIAL INFORMATION

FISCAL YEAR	2015				2014			
$000's	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operational								
Oil sales (bbl/d)	**652**	674	719	993	1,239	1,248	1,426	1,489
Gas sales (mcf/d)	**–**	–	–	–	–	855	927	1,058
NGL sales (bbl/d)	**–**	–	–	–	–	21	21	22
Production service fee (bbl/d)	**704**	723	783	910	904	951	812	910
Total boe/d	**1,356**	1,397	1,502	1,826	2,143	2,363	2,396	2,597
Oil sales volumes (bbls)	**59,988**	62,031	65,434	89,403	113,999	114,839	128,317	133,970
Gas sales volumes (mcf)	**–**	–	–	–	–	78,642	83,442	95,226
NGL sales volumes (bbls)	**–**	–	–	–	–	1,936	1,933	1,942
Production service fee volumes (bbls)	**64,751**	66,517	71,216	74,923	83,189	87,472	73,897	81,921
Total sales and service fee volumes (boe)	**124,739**	128,547	136,650	164,326	197,188	217,356	218,055	233,700
Brent oil price (US$/bbl)	**43.56**	50.26	61.72	53.78	76.37	101.87	109.70	108.14
Realized oil price (US$/bbl)	**38.70**	45.91	57.44	48.83	71.18	95.56	103.90	102.31
Realized gas price (US$/mcf)	**–**	–	–	–	–	1.00	1.00	1.00
Realized NGL price (US$/bbl)	**–**	–	–	–	–	68.45	73.58	72.43
Realized Service fee (US$/bbl)	**27.90**	33.31	40.72	37.57	58.07	77.71	83.91	81.84
Net Realized price (US$/boe)	**33.09**	39.39	48.73	43.69	65.65	82.74	90.60	88.35
Royalties (US$/boe)	**5.50**	8.23	14.46	10.62	34.81	35.49	28.74	24.14
Sea Dragon Energy Inc. - pre combination	**–**	17.06	30.19	19.53	41.75	48.09	53.69	53.60
Madison Petrogas Ltd - pre combination	**–**	–	–	–	–	–	–	–
Operating costs (US$/boe)	**19.90**	11.41	4.89	8.65	15.88	16.51	10.34	11.36
Sea Dragon Energy Inc. - pre combination	**–**	10.49	(5.13)	8.40	17.30	20.31	10.57	12.23
Madison Petrogas Ltd - pre combination	**–**	12.27	14.09	8.95	13.94	10.85	9.91	9.74
Netback - (US$/boe)	**7.69**	19.75	29.38	24.42	14.96	30.74	51.53	52.84
Sea Dragon Energy Inc. - pre combination	**–**	18.36	32.38	20.90	12.13	17.72	29.79	26.02
Madison Petrogas Ltd - pre combination	**–**	21.04	26.63	28.61	44.13	66.86	74.00	72.10

FINANCIAL STATEMENTS

SDX ENERGY

Independent Auditor's REPORT

April 29, 2016

To the Shareholders of SDX Energy Inc.

We have audited the accompanying consolidated financial statements of SDX Energy Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015 and December 31, 2014 and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SDX Energy Inc. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

Other matter

The consolidated financial statements of Madison Petrogas Ltd. for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2015.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London

Consolidated Balance Sheet

for the years ended December 31, 2015 and 2014

(thousands of United States dollars)		AS AT DECEMBER 31, 2015	AS AT DECEMBER 31, 2014
Assets			
Cash and cash equivalents	7	**8,170**	17,935
Trade and other receivables	8	**6,678**	3,306
Inventory	9	**1,188**	–
Current assets		**16,036**	21,241
Investments	12	**2,106**	1,999
Property, plant and equipment	10	**18,401**	9,392
Intangible exploration and evaluation assets	11	**23,473**	16,460
Non-current assets		**43,980**	27,851
Total Assets		**60,016**	**49,092**
Liabilities			
Trade and other payables	14	**3,556**	1,686
Debentures	15	**–**	2,207
Current income taxes		**928**	5,142
Current liabilities		**4,484**	9,035
Decommissioning provision	16	**–**	217
Deferred income taxes	17	**286**	391
Non-current liabilities		**286**	608
Total Liabilities		**4,770**	**9,643**
Equity			
Share capital	18	**30,148**	24,512
Warrants	18	**99**	99
Contributed surplus		**5,175**	4,414
Other comprehensive loss		**(1,154)**	(507)
Retained Earnings		**20,978**	10,931
Equity		**55,246**	39,449
Equity and liabilities		**60,016**	**49,092**

The notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

Paul M Welch

Mark Reid

Paul Welch
Chief Executive Officer

Mark Reid
Chief Financial Officer

Consolidated Statements of Comprehensive Income

(thousands of United States dollars, except per share data)	NOTE	YEAR ENDED DECEMBER 31 2015	2014
Revenue, net of royalties	20	**11,372**	24,533
Revenue		**11,372**	24,533
Direct operating expense		**4,973**	3,639
Exploration and evaluation expense	11	**73**	2,767
Depletion, depreciation and amortization	10	**2,057**	1,602
Impairment expense	10	**6,842**	–
Stock based compensation	19	**761**	1,064
Equity in income of associate	12	**(1,024)**	(1,130)
Loss on disposal of office assets	10	**3**	–
General and administrative expenses	21	**4,770**	2,898
Operating (Loss)/Income		**(7,083)**	13,693
Net finance expense	22	**96**	1,009
Gain on acquisition	4	**(18,289)**	–
Income before income taxes		**11,110**	12,684
Current income tax expense	17	**1,168**	4,308
Deferred income tax (credit)/expense	17	**(105)**	20
Total Current and Deferred income tax expense		**1,063**	4,328
Net Income		**10,047**	8,356
Other comprehensive loss			
Foreign exchange		**647**	420
Total comprehensive income for the year		**9,400**	7,936
Net income per share			
Basic	23	**$0.195**	$0.148
Diluted	23	**$0.195**	$0.144

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(thousands of United States dollars)	YEAR ENDED DECEMBER 31 **2015**	 2014
Share Capital		
Balance, beginning of year	**24,512**	24,512
Issuance of common shares	**5,636**	–
Balance, end of year	**30,148**	24,512
Warrants		
Balance, beginning of year	**99**	99
Balance, end of year	**99**	99
Contributed Surplus		
Balance, beginning of year	**4,414**	3,350
Share based payments for the year	**761**	1,064
Balance, end of year	**5,175**	4,414
Accumulated Other Comprehensive Loss		
Balance, beginning of year	**(507)**	(87)
Foreign currency translation adjustment for the year	**(647)**	(420)
Balance, end of year	**(1,154)**	(507)
Retained Earnings		
Balance, beginning of year	**10,931**	2,575
Net income for the year	**10,047**	8,356
Balance, end of year	**20,978**	10,931
Total Equity	**55,246**	39,449

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the years ended December 31, 2015 and 2014

(thousands of United States dollars)	NOTE	YEAR ENDED DECEMBER 31 2015	2014
Cash flows from/(used in) operating activities			
Income before income taxes		**11,110**	12,684
Adjustments for:			
Depletion, depreciation and amortization	10	**2,057**	1,602
Exploration expense	11	**73**	2,767
Impairment expense	10	**6,842**	–
Amortization of deferred transaction costs	22	**378**	–
Finance costs		**(9)**	33
Stock-based compensation		**761**	1,064
Gain on acquisition	4	**(18,289)**	–
Equity in income of associate	12	**(1,024)**	(1,130)
Loss on disposal of office assets	10	**3**	–
Operating cash flows before working capital movements		**1,902**	17,020
(Increase)/decrease in trade and other receivables	4	**(3,372)**	13,005
Increase/(decrease) in trade and other payables	12	**2,377**	(64)
Increase on inventory	10	**(1,188)**	–
Cash (used in)/generated from operating activities		**(281)**	29,960
Income taxes paid		**(4,933)**	(4,430)
Net cash (used in)/from operating activities		**(5,214)**	25,531
Cash flows (used in)/from investing activities			
Property, plant and equipment expenditures	10	**(1,392)**	(1,964)
Exploration and evaluation expenditures	11	**(3,728)**	(11,670)
Gain on disposal of office assets		**8**	–
Dividends received	12	**917**	1,110
Sea Dragon Energy Inc. net working capital as a result of the business combination effective October 1, 2015		**3,911**	–
Net cash used in investing activities		**(284)**	(12,524)
Cash flows used in financing activities			
Repayment of debentures	15	**(2,052)**	–
Repayment of bank facility	13	**(1,650)**	–
Net cash used in financing activities		**(3,702)**	–
Change in cash and cash equivalents		**(9,200)**	13,007
Effect of foreign exchange on cash and cash equivalents		**(565)**	(615)
Cash and cash equivalents, beginning of period		**17,935**	5,543
Cash and cash equivalents, end of period		**8,170**	17,935

The notes are an integral part of these consolidated financial statements.

Note 1 Reporting entity

SDX Energy Inc. ("SDX" or "the Company"), formerly known as Sea Dragon Energy Inc., is a company domiciled in Canada. The address of the Company's registered office is 1900, 520 – 3rd Avenue SW, Centennial Place, East Tower, Calgary, Alberta T2P 0R3. The consolidated financial statements of the Company as at and for the years ended December 31, 2015 and 2014 comprise the Company and its wholly owned subsidiaries and associates. As described in Note 4 to the Consolidated Financial Statements, on August 18, 2015 Sea Dragon Energy Inc. and Madison PetroGas Limited entered into a Business Combination Arrangement Agreement, and, on October 1, 2015 the transaction completed creating the new SDX Energy Inc. combined entity. Full details of the Business Combination is set out in Note 4. The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. The Company's principle properties are located in the Arab Republic of Egypt and the Republic of Cameroon.

The Company is listed on the Toronto Venture Stock Exchange (TSX-V) and trades under the symbol SDX.

Note 2 Basis of preparation

(a) Statement of compliance

The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and interpretations (collectively referred to as "IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies that follow set out those policies that apply in preparing the audited consolidated financial statements for the year ended December 31, 2015. The policies applied are based on IFRS issued and outstanding as of April 29, 2016.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These audited consolidated financial statements are expressed in United States dollars ($ or US$), which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

In accounting for property, plant and equipment, amounts recorded for depletion and amounts used for impairment test calculations are based on estimates of oil and gas reserves and cash flows, including development costs, production volumes and oil and gas prices. The provision for decommissioning costs and related accretion expense, derivative fair value calculations, fair value of share-based payments expense, deferred tax provisions, as well as fair values assigned to any identifiable assets and liabilities in business combinations are also based on estimates. By their nature, the estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

(e) Going concern

The Directors have reviewed the Company's forecast cash flows for the next twelve months from the date of publication of this Annual Report and through until December 31, 2017. The capital expenditure and operating costs used in these forecast cash flows are based on the Company's Board approved 2016 corporate budget which reflects approved operating budgets for each of its Joint Ventures and an estimate of 2016 SDX corporate general and administrative expenses. The Company's forecast cash flows also reflect its best estimate of operational and corporate expenditure, including corporate general and administrative costs for the year to December 31, 2017. The Directors have made enquiries into and considered the Egyptian business environment, future expectations regarding commodity price risk and, in particular, oil price risk given the substantial fall in quoted Brent and Crude oil WTI prices. On the basis of the budgeted cash flows, additional funds are required to complete the Company's committed and planned capital expenditure and the directors are exploring a number of options to access additional sources of funding. The directors are extremely confident of making an announcement to update shareholders on this issue in the very near term.

Having considered these sensitivities and potential outcomes relating to:

(i) country and commodity price risks;

(ii) the Company's ability to change the timing and scale of discretionary capital expenditure;

(iii) the Company's ability to manage operating costs;

(iv) the Company's ability to manage general and administrative costs; and

(v) the Company's ability to access additional sources of working capital resources.

The Directors consider that, whilst a material uncertainty exists that may cast significant doubt over the Company's committed and planned capital expenditure, they are extremely confident that this will be resolved in a very short period and that the going concern basis of accounting is appropriate, albeit no assurance can be provided. The financial statements do not reflect the adjustments that would be required if this basis was not appropriate.

Given the above, these Consolidated Financial Statements continue to be prepared under the going concern basis of accounting.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled assets

The Company is engaged in oil and gas exploration, development and production through unincorporated joint arrangements ("Joint Operations"). Where joint control exists the Company accounts for its share of the results and net assets of these Joint Operations as jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Investments in associates

An associate is an entity over which the Company has significant influence. The Company's subsidiary Madison Egypt Oil and Gas Ltd owns a 50% equity interest in Brentford Oil Tools ("Brentford"); an Egyptian incorporated private company. The Company accounts for its investment in Brentford using the equity method of accounting. Under the equity method of accounting, the investment in Brentford, is initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. The Company's Statement of Comprehensive Income includes its share of Brentford's profit or loss. The Company's other comprehensive income includes its share of Brentford's other comprehensive income. Dividends received or receivable from Brentford are recognized as a reduction in the carrying amount of the investment.

(iv) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to United States dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise of trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hand, deposits with banks, term deposits, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are designated as loans and receivables.

Financial assets at fair value through the Statement of Comprehensive Income

An instrument is classified at fair value through the Statement of Comprehensive Income if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through the Statement of Comprehensive Income if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in the Statement of Comprehensive Income when incurred. Financial instruments are measured at fair value, and changes therein are recognized in the Statement of Comprehensive Income.

Financial liabilities

Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Financial assets

Trade and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

(ii) Equity instruments

Equity instruments are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects, if any.

(d) Inventory

Inventories consist of tangible drilling materials, and other consumables. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less applicable selling expenses.

(e) Property, plant and equipment and intangible exploration and evaluation expenses

(i) Recognition and measurement

Development and production costs

Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or the construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Expenditures on major maintenance, inspections or overhauls are capitalized when the item enhances the life or performance of an asset above its original standard. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of Comprehensive Income as incurred. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance expenditures are expensed as incurred.

Intangible exploration and evaluation expenditures

Pre-licence costs are recognized in the Consolidated Statement of Comprehensive Income in the period that they are incurred.

Exploration and evaluation expenditures, including the costs of acquiring licences and directly attributable general and administrative costs, geological and geophysical costs, acquisition of mineral and surface rights, technical studies, other direct costs of exploration (drilling, trenching, sampling and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as intangible exploration and evaluation ("E&E") assets.

On a quarterly basis, a review of any areas classified and accounted for as E&E is performed to determine whether enough information exists to make a determination of the technical feasibility and commercial viability of the area. Where appropriate, review may indicate that an area should be further sub-divided due to a significant portion having been explored whilst a significant undeveloped portion with different traits (i.e. different zone, technical approach, play type, etc.) remains that requires additional E&E activities to arrive at the point where it can be assessed for technical feasibility and commercial viability.

The assessment of technical feasibility and commercial viability is performed on an area level basis unless further sub-division is merited. Depending on the extent and complexity of the prospective play, many wells may need to be drilled and potentially significant E&E costs accumulated prior to obtaining enough information to make the determination of technical feasibility and commercial viability possible.

E&E costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then, the carrying value of the relevant E&E asset will be reclassified as a development and production asset ("D&P") into the cash generating unit ("CGU") to which it relates, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. Typically, technical feasibility and commercial viability of extracting a mineral resource is considered to be demonstrable when proven or probable reserves are determined to exist. However, if the Company determines the area is not technically feasible and commercially viable, accumulated E&E costs are expensed.

(ii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets (see below), prior to the business combination, effective October 1, 2015 Madison Petrogas Ltd's depreciation policy was to depreciate on a declining balance basis at rates of 20% to 50%, approximating their estimated useful lives.

However SDX Energy Inc., formerly Sea Dragon Energy Inc., recognized depreciation in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. SDX Energy Inc. continues to adopt the straight-line basis for other assets.

As a result of the required accounting for the business combination, however, depreciation on other assets for the year ended December 31, 2015, see note 10, is a combination of both methods. For the nine months to September 30, 2015 a declining balance basis has been used and for the three months from October 1, 2015 to December 31, 2015, the straight-line method has been adopted for the combined entity.

The estimated useful lives for other assets for the current year is as follows:

Office equipment	1 – 5 years
Fixtures and fittings	1 – 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the Statement of Comprehensive Income.

An impairment loss is reversed when there is a significant change in the underlying estimates or other objective evidence. For financial assets measured at amortized cost the reversal is recognized in the Statement of Comprehensive Income.

(ii) Non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to D&P assets or whenever facts and circumstances indicate potential impairment. Exploration and evaluation assets are tested separately for impairment. An impairment loss is recognized for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less cost of disposal and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the cash generating unit "CGU"). The recoverable amount of an asset or CGU is the greater of its fair value less cost of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. An impairment loss is charged to the income statement. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased, if such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(g) Share based payments

The grant date fair value of options granted to employees is recognized as stock based compensation expense, with a corresponding increase in contributed surplus over the vesting period. Each tranche granted is considered a separate grant with its own vesting period and grant date fair value. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior operating decision-makers. The senior operating decision-makers have been identified as the Executive directors that, as a group, make strategic decisions regarding the Company.

(i) Provisions

A provision is recognized, if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(j) Decommissioning obligations

Although the Company has no Decommissioning obligations as at December 31, 2015, the explanation following sets out the Company's accounting policy relating to the obligation that was in place as at December 31, 2014. The Company's activities can give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision is established.

(k) Revenue

Revenue from the sale of oil, condensates, natural gas and natural gas liquids ("NGL") is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline or is delivered to the refinery. Revenue is measured net of discounts, customs duties and royalties.

Revenue from the services provided in the production of oil and natural gas is recognized when title passes from the Company to the customer. Production service fee revenue represents the Company's share of oil and gas production that remains after all obligations under its contracts have been recorded, inclusive of any royalty obligations to government and other mineral interest owners.

Tariffs and tolls charged to other entities for the use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Pursuant to the terms of the Company's Egyptian concession agreements, the corporate tax liability of the joint venture partners is paid by the government controlled corporations ("Corporations") out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes the corporate taxes paid by the Corporations are treated as a benefit earned by the Company; the amount is included in net oil revenues and in income tax expense, therefore having a net neutral impact on reported net income. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The Company also has a production service agreement in Egypt relating to Block – H Meseda. The Company's subsidiary, Madison Egypt Ltd ("MEL") an Egyptian registered entity, is the SDX contracting party in this production service agreement. Corporate tax is payable by MEL based on its taxable income, from this production service agreement, for the year using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

(m) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants.

(n) New standards and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, the International Accounting Standards Board ("IASB) has issued the following new and revised standards which are not yet effective for the relevant periods:

IFRS 9 – Financial Instruments ("IFRS 9")

In July 2014, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments – Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2018. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014 and will provide a more structured approach to measuring and recognizing revenue. The new guidance includes a five-step recognition and measurement approach and enhanced qualitative disclosure requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for annual periods beginning on or after January 1, 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures (simplified transition method). The Company is assessing the impact of this standard on the consolidated financial statements.

IFRS 16 – Leases ("IFRS 16")

On January 13, 2016, the IASB published IFRS 16 which replaces the current guidance in IAS 17. IFRS 16 requires lessees to recognize a lease liability reflecting the future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15 is applied. The Company is assessing the impact of this standard on the consolidated financial statements.

Note 4 Business Combination

On August 18, 2015 Sea Dragon Energy Inc. ("Sea Dragon") and Madison PetroGas Ltd. ("Madison") entered into an Arrangement Agreement whereby:

- Sea Dragon acquired all of the issued and outstanding Madison shares on the basis of an exchange ratio of 16.7 Sea Dragon common shares (on a pre-Sea Dragon Share Consolidation basis) for each Madison share or 0.477143 of a Sea Dragon share for each Madison share on a post-Sea Dragon Consolidation basis. Sea Dragon affected the share consolidation (the "Sea Dragon Consolidation") on the basis of one (1) post-share consolidation Sea Dragon share for thirty-five (35) pre-share consolidation Sea Dragon shares;
- Upon closing the transaction, the existing Madison shareholders hold approximately 71% of the combined entity, which was renamed "SDX Energy Inc.", with the holders of Sea Dragon shares holding approximately 29% of the combined entity; and
- Notwithstanding that as described above, Sea Dragon acquired all of the issued and outstanding shares of Madison, the guidance in IFRS 10, Consolidated Financial Statements and IFRS 3, Business Combinations, it has been determined that Sea Dragon Energy Inc. is actually the accounting acquiree and Madison Petrogas Limited, is the accounting acquirer. As Madison Petrogas Limited is the accounting acquirer, the consolidated financial statements of SDX Energy Inc. is a continuation of the Madison Petrogas Limited consolidated financial statements, reflecting the equity instruments of Sea Dragon Energy Inc.
- Immediately prior to the business combination completing, the name of the group was changed to SDX Energy Inc. The effective date of this name change was September 30, 2015 and the effective date of the transaction was October 1, 2015.

The effective date of the transaction is October 1, 2015, the date on which the transaction completed.

As discussed above, under IFRS 3 the business combination is deemed to be a reverse takeover whereby Madison acquires Sea Dragon. This means that a calculation is undertaken to compare the fair value of consideration provided to Sea Dragon shareholders versus the fair value of the assets that they contributed to the combined entity. As described below, this transaction resulted in a Gain on Acquisition for SDX Energy Inc. as the fair value of the Sea Dragon assets acquired was greater than the consideration it provided to the Sea Dragon shareholders by way of issue of SDX Energy Inc. common shares.

Calculation of Fair Value of shares issued to Sea Dragon Shareholders:

000's	
Post consolidation SDX Energy Inc. outstanding shares	10,756
SDX Energy Inc. closing share price as at September 30, 2015 in CAD$	0.70
Fair Value of shares issued	7,529
USD/CAD exchange rate	0.7485
Fair Value of Shares issued – US$	**5,636**

Transaction costs associated with this transaction have been included in the Statement of Comprehensive Income; see note 21.

As required by IFRS 3 Business Combinations, management adopted the recognition principle and concluded that the fair value of Sea Dragon's net assets acquired was considered to be equal to their book value. Concomitantly to this transaction, management assessed impairment for its PP&E assets during Q3 2015 and concluded that an insignificant headroom existed at that time, therefore any impairment was deemed to have already been reflected in the financial statements as at September 30, 2015 and the book value of its PP&E was therefore concluded to be similar to its fair value at that time. Subsequent to the issuance of Sea Dragon's Q3 2015 Financial Statements, a significant decrease in oil prices triggered a new impairment assessment at year end, which resulted in an impairment being recorded as at December 31, 2015 which is described in Note 10 to the Consolidated Financial Statements.

The deemed fair value of Sea Dragon Energy Inc.'s identifiable assets and liabilities has been determined as their accounting book value as at the date of the business combination and these are shown below:

000's	
Current Assets (including cash acquired)	8,244
Current Liabilities (excluding bank debt)	(2,683)
Bank Debt	(1,650)
Property, plant and equipment	16,747
Intangible exploration and evaluation assets	3,267
	23,925
Paid By:	
Fair Value of shares issued	5,636
Less: Fair Value of Assets acquired	23,925
Gain on Acquisition	18,289

In the 9 months to September 30, 2015 Revenues and Total comprehensive loss of Sea Dragon were US$6.2 million and US$(2.0) million respectively.

Note 5 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of financial instrument valuation methods have been defined as follows:

Level 1 Fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 Fair value measurements are based on unobservable information.

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings included in the consolidated balance sheet approximate to their fair value due to the short term nature of those instruments.

(a) Stock options

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, and the risk-free interest rate.

Note 6 Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- market risk;
- foreign currency risk; and
- other price risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer, partner, or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners, oil and natural gas marketers, and cash held with banks. The maximum exposure to credit risk at the end of the period is as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Cash and cash equivalents	**8,170**	17,935
Trade and other receivables	**6,678**	3,306
Total	**14,848**	21,241

Trade and other receivables

All of the Company's operations are conducted in Egypt and Cameroon. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party.

The Company does not anticipate any default as it expects continued payment from customers. As such no provision for doubtful accounts has been recorded as at December 31, 2015 and 2014.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Current		
Government of Egypt controlled corporations	**5,018**	3,272
Joint venture partners	**862**	–
Other	**798**	34
Total trade and other receivables	**6,678**	3,306

Current receivables of US$5.0 million related to oil sales and production service fees which are due from EGPC (December 31, 2014: US$3.3 million), a Government of Egypt controlled corporation. Receivables in respect of oil sales and service fees are normally collected in one to two months following production. The Company expects to collect outstanding receivables of US$0.8 million for NW Gemsa and US$1.2 million for Block – H Meseda, in the normal course of operations; the remaining US$3.0 million being the pledged Shukheir Marine receivables. The Shukheir Marine trade receivables of US$3.0 million relate to invoices withheld as a rolling production guarantee for the work program of the South Disouq concession. Please see Note 8 for further details.

The joint venture partners receivables of US$0.9 million relates to the joint venture partner accounts for Block-H Meseda (US$0.1 million) and South Disouq (US$0.8 million).

The other receivables of US$0.8 million consist of US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.3 million related to prepayments, US$0.2 million for GST/ VAT and US$0.1 million for other items.

As at December 31, 2015 and December 31, 2014, the Company's trade and other receivables is aged as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Current		
Current (less than 90 days)	**3,364**	3,272
Past due (more than 90 days)	**3,314**	34
Total - current	**6,678**	3,306

The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have increased by US$3.3 million when compared to December 31, 2014. This increase is due to the US$3.0 million Shukheir Marine pledged receivables and represents April to October 2014 oil sales invoices, US$0.2 million for accrued gas and liquids revenue and US$0.1 million held by EGPC for a well commitment in Block H - Meseda.

Subsequent to December 31, 2015 the Company collected US$2.2 million from a government of Egypt controlled corporation for NW Gemsa and Block-H Meseda receivables, thereby reducing the current (less than 90 days) balance.

Cash and cash equivalents

The Company limits its exposure to credit risk by only investing in liquid securities and only with highly rated counter-parties. The Company's cash and cash equivalents are currently held by banks with A or AA credit ratings, therefore management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political unrest. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on projects to further manage capital expenditure and has a Board of Director approved signing authority matrix. The Company also attempts to match its payment cycle with collection of oil and service fee revenue to the extent possible.

As at December 31, 2015, the Company's financial liabilities are due within one year.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

(e) Foreign currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting and functional currency of the Company is the United States dollars (US$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the EGP and US$, GBP and US$ and CAD$ and the US$. The majority of capital expenditures are incurred in US$ and EGP and oil and service fee revenues are received in both US$ and EGP. The Company is able to utilize EGP to fund its Egyptian office general and administrative expenses and to part-pay cash calls for both capital and operating expenditure, therefore reducing the Company's exposure to foreign exchange risk during the period.

The table below shows the Company's exposure to foreign currencies for its financial instruments:

	TOTAL PER FS[1]	US$	EGP	EUR	CAD	GBP
As at December 31, 2015	*US$ EQUIVALENT*					
Cash and cash equivalents	8,170	7,124	785	54	48	159
Trade and other receivables	6,678	6,128	61	23	75	391
Trade and other payables	(3,556)	(2,822)	(4)	(52)	(398)	(280)
Current income taxes	(928)	–	(928)	–	–	–
Balance sheet exposure	10,364	10,430	(86)	25	(275)	270

[1] *denotes Financial Statements*

The average exchange rates during the year ended December 31, 2015 and 2014 were 1 US$ equals:

AVERAGE: January 1, 2015 to December 31, 2015	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.2783	0.6542	0.9012	7.6849

AVERAGE: January 1, 2014 to December 31, 2014	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.1041	0.6072	0.7536	7.0545

The period end exchange rates as at December 31, 2015 and 2014 were 1 US$ equals:

PERIOD END: December 31, 2015	USD / CAD	USD / GBP	USD / EUR	USD / EGP
December 31, 2015	1.3869	0.6755	0.9168	7.8041

PERIOD END: December 31, 2014	USD / CAD	USD / GBP	USD / EUR	USD / EGP
December 31, 2014	1.1627	0.6437	0.8226	7.1296

(f) Other price risk

Other price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the United States dollar and other currencies but also macro-economic events that impact the perceived levels of supply and demand.

The Company may hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company's production is sold on the daily average price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts.

At December 31, 2015 the Company did not have any outstanding derivatives in place.

(g) Capital management

The Company defines and computes its capital as follows:

	CARRYING AMOUNT	
$000's	**DECEMBER 31, 2015**	DECEMBER 31, 2014
Equity	**55,246**	39,449
Working capital [1]	**(11,552)**	(12,206)
Total capital	**43,694**	27,243

[1] *Working capital is defined as current assets less current liabilities.*

The Company's objective when managing its capital is to ensure it has sufficient funds to maintain its ongoing operations, to pursue the acquisition of interests in producing or near to production oil and gas properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the exploration and development of its interests in its existing oil and gas properties and to pursue other opportunities.

Note 7 Cash and cash equivalents

	CARRYING AMOUNT	
	DECEMBER 31, 2015	DECEMBER 31, 2014
Bank Balances	**8,170**	17,935
Cash and cash equivalents	**8,170**	17,935

Cash at bank earns interest at floating rates based on the daily bank deposit rates.

Note 8 Trade and other receivables

	CARRYING AMOUNT	
	DECEMBER 31, 2015	DECEMBER 31, 2014
Trade receivables	**5,018**	3,272
Other receivables	**1,660**	34
	6,678	3,306

Current trade and other receivables are unsecured and non-interest bearing. The normal collection pattern for trade receivables is 30 to 60 days.

Trade receivables comprise the US$0.8 million of crude oil sales invoices for the NW Gemsa concession, US$1.2 million of service fee invoices for Block-H Meseda and US$3.0 million of pledged Shukheir Marine oil invoices.

The pledged Shukheir Marine receivables of US$3.0 million will be collected once the Company satisfies its obligations under the South Disouq work program. The mechanism for the operation of the guarantee is prescribed in the South Disouq concession agreement. The guarantee will reduce on a quarterly basis once the Company starts to incur capital expenditure under the South Disouq work program.

The other receivables of US$1.7 million include: US$0.9 million of joint venture partner current accounts for Block-H Meseda and South Disouq, US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.3 million related to prepayments, US$0.2 million for GST/VAT and US$0.1 million for other.

The joint venture partner current accounts present the net of monthly cash calls paid less billings received.

Subsequent to December 31, 2015 the Company collected US$2.2 million from a government of Egypt controlled corporation for NW Gemsa and Block-H Meseda trade receivables.

Note 9 Inventory

A full review of the Company's materials inventory was undertaken during 2015 in light of continuing difficult market conditions for the oil and gas sector. The Company considers that the current value for the materials inventory represents the net realizable value and no adjustment has therefore been made. The value remains at US$1.2 million. The Balance Sheet for 2014 relates only to Madison which did not carry any inventory as at December 31, 2014.

Note 10 Property, plant and equipment

	OIL INTERESTS	FURNITURE AND FIXTURES	TOTAL
Cost:			
Balance at December 31, 2013	**9,875**	**139**	**10,014**
Additions	1,928	36	1,964
Transfer from exploration and evaluation assets (note 11)	963	–	963
Foreign currency revaluation	(4)	(1)	(5)
Decommissioning provision	62	–	62
Disposals			
Balance at December 31, 2014	**12,824**	**174**	**12,998**
Additions	1,375	17	1,392
Acquisitions (see Note 4)	16,679	68	16,747
Foreign currency revaluation	–	(32)	(32)
Decommissioning provision	(208)	–	(208)
Disposals	–	(8)	(8)
Assets scrapped	(7)	(99)	(106)
Balance at December 31, 2015	**30,663**	**120**	**30,783**
Accumulated depletion and depreciation:			
Balance at December 31, 2013	**(1,893)**	**(112)**	**(2,005)**
Depletion and depreciation for the year	(1,585)	(16)	(1,601)
Balance at December 31, 2014	**(3,478)**	**(128)**	**(3,606)**
Depletion and depreciation for the year	(2,014)	(43)	(2,057)
Foreign currency revaluation	–	28	28
Impairment for the year	(6,842)	–	(6,842)
Assets scrapped	–	95	95
Balance at December 31, 2015	**(12,334)**	**(48)**	**(12,382)**
NBV Property, plant and equipment as at December 31, 2014	**9,346**	**46**	**9,392**
NBV Property, plant and equipment as at December 31, 2015	**18,329**	**72**	**18,401**

During the year ended December 31, 2015 the Company had PP&E additions of US$1.4 million; which consisted of US$1.3 million relating to Block-H Meseda and US$0.1 million for the NW Gemsa concession.

The Block-H Meseda additions were for the drilling of one step-out well and a water injector at a cost of US$1.2 million and pipe inventory of US$0.1 million.

The NW Gemsa additions were for the drilling of Al Amir SE23, US$0.2 million, a well workover programme of US$0.1 million and reversing over-accruals related to the 2014 drilling and work over programme of US$(0.2) million.

The Company has also recorded, on the face of the table above, the assets acquired from SDX Energy Inc., formerly Sea Dragon Energy Inc., as a result of the business combination effective October 1, 2015. The gross cost of the assets acquired was US$31.3 million and the accumulated depletion and depreciation ("DD&A") US$14.6 million; shown above as a net cost of US$16.7 million.

The Company sold and scrapped office assets with a gross cost of US$0.1 million incurring a small residual loss, which is disclosed on the face of the Statement of Comprehensive Income.

At December 31, 2015 for the purposes of the depletion calculation, US$3.4 million (December 31, 2014 – US$2.4 million) of future development costs are included in the calculation of cost in determining the depletion rate.

At the reporting date an impairment test was triggered due to falling crude oil prices and a reduction in the proved and probable reserves for the NW Gemsa concession. The impairment test was carried out for the NW Gemsa and Block-H Meseda fields. The impairment test was carried out in accordance with the accounting policy note stated in Note 3. The recoverable amounts of the fields have been determined based on value-in-use calculations. These calculations require the use of estimates and these estimates were obtained from independent 3rd party sources; namely DeGolyer and MacNaughton Canada who produced the Company's NI 51-101 Reserves Report as of December 31, 2015. The present values of future cash flows was computed by applying forecast prices for oil and gas reserves to estimated future production of proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 15%. The discount rate used reflects the specific risks relating to the underlying cash generating units ("CGUs").

Based on this calculation no impairment is required for Block-H Meseda and for NW Gemsa an impairment of US$6.8 million has been recorded.

The value in use calculation assumes Brent oil sales prices in US$/bbl as follows:

2016	2017	2018	2019	2020	2021	2022
US$42.48	US$60.10	US$63.34	US$69.86	US$75.58	US$80.41	US$87.65

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the impairment of the NW Gemsa fields would be US$7.5 million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the impairment of the NW Gemsa fields would be US$6.1 million.

If the oil price assumptions used in the impairment test were to decrease by 5% the impairment of the NW Gemsa fields would be US$8.3 million.

Note 11 Intangible exploration and evaluation assets

Balance at December 31, 2013	**8,520**
Additions	11,670
Transfers to property, plant and equipment (note 10)	(963)
Transfers to exploration expense	(2,767)
Balance at December 31, 2014	**16,460**
Additions	3,728
Acquisitions (see Note 4)	3,267
Unsuccessful well effort	18
Balance at December 31, 2015	**23,473**

Intangible exploration and evaluation ("E&E") additions of US$3.7 million for 2015 consist of US$2.3 million in relation to the West Bakassi block in Cameroon ("West Bakassi") and US$1.4 million in relation to the South Disouq concession.

The additions for West Bakassi consisted of 2D seismic acquisition and processing, well planning for the exploration well, which was drilled in March, 2016, and geological and geophysical costs.

The additions for South Disouq consisted of geological and geophysical work, crew and equipment mobilization and the purchase of dynamite in preparation for the 3D seismic program which commenced in Q1, 2016.

The Company has also recorded, on the face of the table above, the assets acquired from SDX Energy Inc., formerly Sea Dragon Energy Inc., as a result of the business combination effective October 1, 2015. The cost of the assets acquired was US$3.3 million and related to the costs associated with the award, in the 2012 bid round, and the costs incurred in the 3D seismic program for the South Disouq concession as at September 30, 2015.

During the year ended December 31, 2015 the Company incurred US$0.1 million (2014 – US$2.8 million) in pre-license costs which were expensed and recorded as exploration and evaluation expenses on the face of the Statement of Comprehensive Income. The pre-licence costs consist of US$0.1 million in business development costs.

Note 12 Investments

The Company owns a 50% equity interest in Brentford Oil Tools LLC ("Brentford"), an oilfield equipment rental business incorporated in Egypt. The Company is accounting for this investment using the equity method in accordance with IAS28 – "Investments in Associates". The investment is reviewed regularly for indicators of impairment and no impairment was identified for the years ended December 31, 2015 and 2014.

The following table summarizes the changes in investments for the year ended December 31, 2015 and 2014:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Investments, beginning of year	**1,999**	1,978
Dividends received	**(917)**	(1,109)
Share of operating income	**1,024**	1,130
Investments, end of year	**2,106**	1,999

The following table summarizes the Company's 50% interest in the assets, liabilities, revenue and operating income of Brentford as at and for the years ended December 31, 2015 and 2014:

SDX Energy share (50%) of Brentford:	DECEMBER 31, 2015	DECEMBER 31, 2014
Total assets	**2,469**	2,704
Total liabilities	**316**	484
Revenue	**1,816**	2,006
Net Income	**1,024**	1,130

During the year ended December 31, 2015 50% (December 31, 2014 – 50%) of Brentford's revenue was earned from fees charged to the Company.

Note 13 Loans and borrowings

On September 23, 2011 SDX Dragon Energy Inc., formerly Sea Dragon Energy Inc., entered into a credit agreement with HSBC and BNP Paribas for a 5-year senior secured credit facility (the "Facility") in the amount of US$50 million. The Facility was secured by a first charge on the shares, project accounts and interests of certain of the Sea Dragon group of Companies.

As at October 7, 2015 SDX Energy Inc. repaid the US$1.65 million that was outstanding on the Facility such that as at December 31, 2015 the Facility had been repaid in full. All charges and liens held against the Company's assets were released upon execution of the Deed of Release dated December 10, 2015.

As at September 30, 2015, prior to the business combination Sea Dragon Energy Inc. had US$0.4 million of deferred financing costs. The deferred financing costs represented the unamortized costs of establishing the Facility which had been amortizing straight line over the five year term of the loan facility. This amount was released to the Statement of Comprehensive Income in October 2015 as a result of the full repayment and termination of the Facility, see note 22.

Note 14 Trade and other payables

$000's	CARRYING AMOUNT DECEMBER 31, 2015	DECEMBER 31, 2014
Current		
Trade Payables	**198**	–
Accruals	**1,284**	182
Other payables	**2,074**	1,504
	3,556	1,686

Trade payables are non-interest bearing and are normally settled on 30 day terms or, where this differs, in accordance with supplier payment terms or agreed payment plans.

Trade payables of US$0.2 million are due to suppliers of the Company's corporate office.

Accruals comprise South Disouq training fees and general and administrative costs related to restructuring, audit, tax, legal, corporate services and reserve reporting fees.

Other payables comprise an estimated liability of US$1.1 million related to the relinquishment of the Shukheir Marine concession, partner current accounts of US$0.7 million for the NW Gemsa and Cameroon concessions and UK payroll taxes and deferred payroll of US$0.3 million. The joint venture partner current accounts present the net of monthly cash calls paid less billings received.

Note 15 Debentures

On July 27, 2012 the Company completed a private placement for secured debentures in the amount of CDN$2,560,000. The debentures pay interest at a rate of 10% per annum, payable semi-annually, and are repayable after two years. The debentures are redeemable after one year at face value plus accrued interest, at the company's option. During 2014, the Company extended the repayment of the debentures until July 31, 2015. The debentures were repaid in full on May 4, 2015.

The debentures also included the issue of warrants to acquire common shares, on the basis of 500 warrants for each $1,000 of debentures. 1,280,000 warrants were issued at an exercise price of CDN $0.80 per share, exercisable at any time and expiring after two years. During 2014, the Company extended the expiry date of the warrants until July 27, 2016.

On October 1, 2015, as a result of the business combination, a common share purchase warrants second supplemental indenture agreement was entered into which amended the number of warrants to 610,743 with an exercise price of CDN$1.68.

The Company valued the debentures assuming the discount on the interest rate, as a result of including warrants, was approximately 2%. This resulted in a fair value of the debentures being CDN $2,460,000, with the remaining fair value of CDN $100,000 (US$ 99,400) being assigned to the warrants.

Accretion of the debentures for the year ended December 31, 2015 of $nil (2014 - $28,670) was recorded as interest expense, resulting in an effective interest rate on the debentures of 10% (2014 – 10.98%).

Note 16 Decommissioning provision

The Company has recognized a decommissioning provision in relation to its obligations under the Production Service Agreement ("PSA") in managing the oil and natural gas assets including well sites and gathering systems for Block-H Meseda. The total decommissioning provision was estimated based on the Company's contractual interest in all wells and facilities, estimated costs to plug all wells drilled and remove all facilities, equipment and other assets from the field, and the estimated timing of the costs to be incurred in future years.

Upon conclusion of the business combination between SDX Energy Inc., formerly Sea Dragon Energy Inc., and Madison Petrogas Ltd., effective October 1, 2015 a full review of the PSA was undertaken. Upon completion of this review the Company has concurred that there is no obligation under the PSA and the decommissioning provision has therefore been released. At the termination of the PSA the Company is obliged to return all assets, including well sites, gathering systems, facilities and other assets to the Egyptian state owned oil company for the continued commercial production of the block.

As at September 30, 2015 the total future undiscounted cash flows was US$0.3 million (December 31, 2014 – US$0.3 million), to be incurred between the years 2017 and 2035 and the liability was discounted using a risk-free rate of 2.20% (December 31, 2014 – 2.47%).

The following table summarizes the changes in the decommissioning provision for the twelve months ended December 31, 2015.

	TWELVE MONTHS ENDED DECEMBER 31	
$000's	**2015**	2014
Decommissioning provisions, beginning of year	**217**	151
Changes in estimates and discount rates	**(4)**	17
Liabilities incurred	**36**	45
Accretion	**(9)**	4
Release of decommissioning provision	**(240)**	–
Decommissioning provisions, end of year	**–**	217

Note 17 Income Tax - Current and Deferred

Pursuant to the terms of the Company's concession agreements, the corporate tax liability of the joint venture partners is paid by the government controlled corporations ("Corporations") out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes the corporate taxes paid by the Corporations are treated as a benefit earned by the Company; the amount is included in net oil revenues and deducted as an income tax expense.

The Company has a PSA related to Block-H Meseda with legal title belonging to Madison Egypt Ltd, an Egyptian incorporated entity. The Company is governed by the laws and tax regulations of the Arab Republic of Egypt and pays corporate taxes on the adjusted profit of the entity.

(a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 26% (2014 – 25%) to income before income taxes as follows:

Statement of Comprehensive Income	TWELVE MONTHS ENDED DECEMBER 31	
$000's	2015	2014
Income before income taxes	**11,110**	12,684
Canadian statutory income tax rate	**26%**	25%
Expected income taxes	**2,889**	3,171
Adjustments:		
Non deductible items	**193**	423
Non taxable gain on acquisition	**(4,750)**	–
Unrecognized income tax benefit	**344**	(77)
Foreign tax differential	**(50)**	811
Expenses incurred with no recognized tax benefit	**2,437**	–
Total income tax expense - current and deferred	**1,063**	4,328

(b) The components of the deferred income tax assets and liabilities at December 31, 2015 and 2014 include the following:

Consolidated Balance Sheet	TWELVE MONTHS ENDED DECEMBER 31	
$000's	2015	2014
Deferred tax assets (liabilities):		
Investments	**(7)**	(7)
Property and equipment	**(286)**	(397)
Decommissioning liability	**–**	54
Share issue costs	**–**	23
Debentures	**–**	(60)
Non-capital losses	**15,258**	1,688
Deferred tax assets not recognized	**(15,251)**	(1,692)
Deferred income tax liability	**(286)**	(391)

(c) The Company has US$56.8 million of non-capital losses available at December 31, 2015 (December 31, 2014 – US$7.0 million) to shelter future taxable income, the majority of which were incurred in Canada and expire between 2026 and 2035.

(d) The Company has not recognized its deferred tax assets of US$15.3 million at December 31, 2015 (December 31, 2014 – US$1.8 million) primarily relating to its Canadian business as it has determined that its deferred tax assets are not probable to be realized from current operations.

Note 18 Share capital

(a) The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value.

(b) Common Shares issued

	DECEMBER 31, 2015		DECEMBER 31, 2014	
	NUMBER OF SHARES (000'S)	STATED VALUE ($000'S)	NUMBER OF SHARES (000'S)	STATED VALUE ($000'S)
Balance, beginning of year	**56,348**	**24,512**	56,348	24,512
Business combination	**(29,462)**	**–**	–	–
Share for share exchange	**10,756**	**5,636**	–	–
Balance, end of year	**37,642**	**30,148**	56,348	24,512
Weighted average shares outstanding	**51,633**		56,348	

(c) Common Share Warrants issued

	DECEMBER 31, 2015		DECEMBER 31, 2014	
	NUMBER OF SHARES (000'S)	STATED VALUE ($000'S)	NUMBER OF SHARES (000'S)	STATED VALUE ($000'S)
Balance, beginning of year (see note 15)	**1,280**	**99**	1,280	99
Business combination	**(669)**	**–**	–	–
Balance, end of year	**611**	**99**	1,280	99

Note 19 Stock-Based compensation

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company.

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital.

Effective October 1, 2015, and prior to the closing of the business combination between SDX Energy Inc., formerly Sea Dragon Energy Inc., and Madison, both the Company and Madison cancelled all outstanding stock options. Written agreement was obtained from all directors, officers and employees.

The Company cancelled 28,900,000 stock options with a weighted average exercise price of CDN$0.09 and the directors, officers and employees of the Company each received a nominal payment of CDN$1.00 for their cancelled options.

Madison cancelled 5,630,000 stock options with a weighted average exercise price of CDN$0.91. The directors, officers and employees of Madison received cash compensation for cancelled options, based on the Black Scholes model, of CDN$300,083.

Post business combination the enlarged Company introduced a new option program. Pursuant to a Board Resolution effective November 30, 2016 the Company granted Options to acquire 2,650,000 common shares at an exercise price of CDN$0.63 per common share. The Options have a three year vesting period and expire five years from the anniversary date.

For the year ended December 31, 2015 the Company recorded stock based compensation of US$0.8 million (2014 – US$1.1 million) in relation to the previously granted 5,630,000 Madison options and the new SDX options.

The number and weighted average exercise prices of share options for the Company's option program is as follows:

	NUMBER OF OPTIONS (000'S)	WEIGHTED AVERAGE EXERCISE PRICE (CDN$)
Outstanding January 1, 2015	**4,950**	**0.92**
Cancelled during the year	(4,950)	0.92
Issued during the year	2,650	0.63
Outstanding December 31, 2015	**2,650**	**0.63**
Exercisable December 31, 2015	**883**	**0.63**

The exercise price of the outstanding options is as follows:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
EXERCISE PRICE RANGE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE
$0.63	2,650,000	4.9 years	883,325	4.9 years

	2015
Fair value at grant date (CDN)	**$0.61**
Share price (CDN)	**$0.63**
Exercise price (CDN)	**$0.63**
Volatility (%)	**70**
Forfeiture (%)	**0**
Option life	**5 years**
Dividends (%)	**0**
Risk-free interest rate (%)	**0.8**

Note 20 Revenue, net of royalties

	TWELVE MONTHS ENDED DECEMBER 31	
	2015	2014
Oil revenue	**2,322**	–
Royalties	**(686)**	–
Oil revenue, net of royalties	**1,636**	–
Production service fees	**9,736**	24,533
Total net revenue before tax	**11,372**	24,533

The oil revenue and royalties relate to the NW Gemsa concession, which is governed by a PSC, and covers the period October to December 2015.

The royalties are those attributable to the government take in accordance with the fiscal terms of the PSC.

The production service fees relate to Block-H Meseda, which is governed by a PSA, and covers the period January to December 2015.

The operator continues to be in the process of addressing contractual invoicing with EGPC in relation to gas and liquids. No revenue or sales volumes have been recognized for the year ended December 31, 2015; pending issuance of invoices.

Note 21 General and Administration expenses

	TWELVE MONTHS ENDED DECEMBER 31	
$000's	**2015**	2014
Wages and employee costs	**2,828**	1,430
Consultants - inc. PR/IR	**499**	456
Legal fees	**124**	8
Audit, tax and accounting services	**449**	394
Public company fees	**228**	–
Travel	**250**	235
Office expenses	**490**	317
IT expenses	**75**	58
Transaction costs	**496**	–
Service recharges	**(669)**	–
Total - Net G&A	**4,770**	2,898

Key management personnel have been identified as the non-executive directors and executive officers of the Company. The executive officers include the President and CEO, CFO and Egypt Country Manager. Details of key management remuneration is shown in note 28.

General and administrative ("G&A") costs for 2015 were US$4.8 million, which represented an increase of US$1.9 million compared to 2014.

In accordance with IFRS 3 - Business Combinations (see note 4) the G & A expenses represent three months of SDX Energy Inc., formerly Sea Dragon Energy Inc., and twelve months of Madison Petrogas Ltd.

The Company incurred US$0.5 million of transaction costs in relation to the business combination.

Note 22 Net Financing costs

	TWELVE MONTHS ENDED DECEMBER 31	
	2015	2014
Interest and bank charges	**441**	1,473
Foreign exchange (gain) - realized	**(714)**	(497)
Amortization of Facility costs	**378**	–
Accretion of debentures	**–**	29
Accretion of decommissioning provisions	**(9)**	4
Net Financing Expense	**96**	1,009

The interest and bank charges of US$0.4 million consist of finance fees from EDBE bank to provide a factoring facility for the Block-H Meseda monthly production service fees invoices and monthly bank charges. The amortization of Facility costs relates to the release of the deferred BNP Facility transaction costs as a result of the repayment of the outstanding balance and the cancellation of the Facility, see note 13.

Note 23 Income per share

	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014
Net income before other comprehensive income for the year	**10,047**	8,356
Weighted average number of shares (000's)		
Basic	**51,633**	56,348
Diluted	**51,633**	57,907
Per share amount		
Basic	**$0.195**	$0.148
Diluted	**$0.195**	$0.144

Basic income per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-forma exercise of in-the-money stock options or warrants are used to purchase common shares at average market prices. At December 31, 2015 the strike price of such instruments was above the average market share price, therefore they became anti-dilutive which resulted in a diluted EPS equal to the basic EPS.

Note 24 Segmental Reporting:

Functional segments

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions. The executive directors consider the business from a functional perspective, that is from an 'operations' functional standpoint which includes all of the company's oil and gas operations irrespective of geography and from a 'corporate' functional standpoint. The corporate function includes the Company's administrative and head office function in the UK and residual functions in Canada related to the Board of Directors and TSX-V listing requirements. All key decisions are made by management having regard to these two functions. For the purpose of providing more detailed information in the MD&A, the operations function has been analyzed further to provide some of the production statistics on a field by field basis in Egypt. The company's operations in Cameroon are still in the exploration phase and therefore are not generating production information. Set out below is segmented information on a functional basis.

	YEAR ENDED DECEMBER 31, 2015			YEAR ENDED DECEMBER 31, 2014		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Revenue	–	11,372	11,372	–	24,533	24,533
Direct operating expenses	–	4,973	4,973	–	3,639	3,639
Exploration and evaluation expense	73	–	73	–	2,767	2,767
Depletion, depreciation and amortization	43	2,014	2,057	8	1,594	1,602
Impairment expense	–	6,842	6,842	–	–	–
Stock based compensation	761	–	761	1,064	–	1,064
Equity in income of associate	–	(1,024)	(1,024)	–	(1,130)	(1,130)
Loss on disposal of office assets	3	–	3	–	–	–
General and administrative expenses	4,137	633	4,770	2,504	394	2,898
Operating income/(loss)	(5,017)	(2,066)	(7,083)	(3,576)	17,269	13,693
Net finance expense	(74)	170	96	(296)	1,305	1,009
Gain on acquisition	(18,289)	–	(18,289)	–	–	–
Income/(loss) before income taxes	13,346	(2,236)	11,110	(3,280)	15,964	12,684
Current income tax expense	–	1,168	1,168	–	4,308	4,308
Deferred income tax expense	–	(105)	(105)	–	20	20
Total Current and Deferred income tax expense	–	1,063	1,063	–	4,328	4.328
Net income/(loss) after income taxes	13,346	(3,299)	10,047	(3,280)	11,636	8,356
Other comprehensive (income)/loss - foreign exchange	647	–	647	420	–	420
Comprehensive income/(loss) for the period	12,699	(3,299)	9,400	(3,700)	11,636	7,936

The segment assets and liabilities as at December 31, 2015 and 2014 are as follows:

	YEAR ENDED DECEMBER 31, 2015			YEAR ENDED DECEMBER 31, 2014		
	CORPORATE	**OPERATIONS**	**TOTAL**	CORPORATE	OPERATIONS	TOTAL
Segment assets	**5,505**	**54,511**	**60,016**	5,722	43,370	49,092
Segment liabilities	**1,249**	**3,521**	**4,770**	3,227	6,416	9,643

The segment capital expenditures for the year ended December 31, 2015 and 2014 are as follows:

	YEAR ENDED DECEMBER 31, 2015			YEAR ENDED DECEMBER 31, 2014		
	CORPORATE	**OPERATIONS**	**TOTAL**	CORPORATE	OPERATIONS	TOTAL
Capital additions - PP&E oil interests	**–**	**1,375**	**1,375**	–	1,928	1,928
Capital additions - intangible exploration and evaluation assets	**–**	**3,728**	**3,728**	–	11,670	11,670
Capital additions - office assets	**17**	**–**	**17**	36	–	36

Note 25 Commitments

Pursuant to the concession and production service fee agreements in Egypt and Cameroon, the Company is required to perform certain minimum exploration and development activities that include a 3D seismic campaign and the drilling of exploration and development wells. These obligations have not been provided for in the consolidated financial statements.

The commitments relate to a 3D seismic campaign and the drilling of one exploration well for South Disouq (US$6.6 million), the drilling of one development well and facilities upgrade for South Ramadan (US$2.9 million), the drilling of one development well for Block-H Meseda (US$0.1 million) and the drilling of one exploration well in Bakassi West – Cameroon (US$7.0 million).

The work program for South Disouq is secured by a US$3.0 million withholding of Shukheir Marine receivables.

The development well for Block-H Meseda, is secured by a deposit of US$0.1 million withheld from the Company's service fee revenue.

The work program for Bakassi West – Cameroon is secured by a Parent Company Guarantee ("PCG") of US$7.0 million.

Currently the commitments as part of the concession agreements are as follows:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Less than one year	**13,677**	7,250
Between one and five years	**2,933**	125
	16,610	7,375

Non-cancellable office leases

The Company has a lease commitment for its office premises in Calgary and London under non-cancellable operating leases expiring within two to five years.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Less than one year	**302**	309
Between one and five years	**813**	566
More than five years	**–**	–
	1,115	875

Note 26 Contingencies

There are no contingencies as at December 31, 2015.

Note 27 Related party transactions

All subsidiaries and associates (Brentford Oil Tools) are listed below. A list of the investments in subsidiary undertakings (all of whose operations comprise one class of business, being Oil and Gas Exploration, Development and Production), including the name, proportion of ownership interest, country of operation and country of registration, is given below.

NAME	PERCENTAGE	COUNTRY OF OPERATION	COUNTRY OF REGISTRATION
Sea Dragon Holdings Ltd. (Alberta)	100%	Canada	Canada
Sea Dragon Energy (UK) Ltd.	100%	U.K.	U.K.
SDX Energy Investments (UK) Ltd	100%	U.K.	U.K.
Sea Dragon Cooperatieve U.A. (Netherlands)	100%	Netherlands	Netherlands
Sea Dragon Energy Holding B.V. (Netherlands)	100%	Netherlands	Netherlands
Sea Dragon Energy (Kom Ombo) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (GOS) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (Nile) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (NW Gemsa) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy Holding Ltd. (BVI)	100%	British Virgin Islands	British Virgin Islands
NPC (Shukheir Marine) Ltd (BVI)	100%	Egypt	British Virgin Islands
NPC (South Ramadan) Ltd (BVI)	100%	Egypt	British Virgin Islands
Madison International Oil & Gas Ltd	100%	Barbados	Barbados
Madison Egypt Oil & Gas Ltd	100%	Egypt	Barbados
Madison Cameroon Oil & Gas Ltd	100%	Cameroon	Barbados
Madison Egypt Ltd	100%	Egypt	Egypt
Brentford Oil Tools	50%	Egypt	Egypt

Note 28 Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2015 and 2014 was as follows:

$000's	2015	2014
Salaries, incentives and short term benefits	**2,271**	1,123
Director's fees	**124**	41
Stock based compensation	**642**	890
Total	**3,037**	2,054

CORPORATE INFORMATION

EXECUTIVE OFFICERS

Paul Welch
President and
Chief Executive Officer
Chief Operating Officer

Mark Reid
Chief Financial Officer

Ahmed Farid Moaaz
Country Manager

INDEPENDENT DIRECTORS

Michael Doyle
Non Executive Chairman

David Mitchell

David Richards

Barrie Wright

Paul Moase

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Symbol: SDX

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