

# 2016 Annual Report



Onshore



North Africa focused



High margin production

# Our Highlights

## Fourth Quarter 2016

### Corporate and Financial

- SDX's key financial metrics for the 3 and 12 months ended December 31, 2016 and 2015 are as follows:

US\$ million except per unit amounts	Three months ended December 31		Twelve months ended December 31	
	2016	2015	2016	2015
Net Revenues	5.4	3.4	12.9	11.4
Netback <sup>(1)</sup>	3.6	1.0	7.6	6.4
Net realized average oil price/service fees - US\$/barrel	36.61	33.09	31.50	35.74
Net realized average gas price - US\$/mcf	1.22	-	1.22	-
Non-cash exploration and evaluation write down	-	-	(28.4)	-
Non-cash impairment expense	(4.3)	(6.8)	(4.3)	(6.8)
Total comprehensive income/(loss)	(2.1)	8.5	(28.0)	9.4
Net cash (used in)/generated from operating activities	0.6	(2.3)	(1.9)	(5.2)

(1) Refer to "Non-IFRS Measures" section of this release below for details of Netback.

- The above financial metrics do not reflect any impact of the acquisition of the Egyptian and Moroccan businesses of Circle Oil PLC which completed on January 27, 2017;
- Some relevant financial metrics relating to these acquired businesses are:
  - Unaudited Revenues and Netback for the 12 months ended December 31, 2016 for the businesses acquired were US\$28.9 MM and US\$22.4 MM respectively
  - The Fair Value of the net assets acquired as at January 27, 2017 amounted to US\$59.6 MM of which US\$3.1 MM related to cash and US\$18.4 MM related to non-cash Working Capital excluding deferred income and decommissioning.
- The following comments relate only to SDX's key financial metrics for the 12 months ended December 31, 2016;
- SDX's comprehensive loss of US\$(28.0) MM for 12 months ended December 31, 2016 is due predominantly to:
  - write down of US\$(24.4) MM in the Bakassi West, Cameroon exploration asset resulting from the decision to withdraw from concession; and
  - an impairment of US\$(4.3) MM due to the North West Gemsa field now being projected to reach its economic limit earlier as a result of the reserve auditor's lower oil price forecast in future years.
- Net Revenues for the 3 and 12 months ended 31 December 2016 includes US\$2.3 MM relating to gas and natural gas liquids revenue relating to the period October 1, 2013 to December 31, 2016. This revenue had previously not been recognised due to uncertainties relating to entitlement and pricing which have now been resolved. US\$1.8 MM relates to the period October 1, 2013 to December 31, 2015 and US\$0.5MM relates to the 12 months ended December 31, 2016;
- US\$13.3 MM of capital expenditure has been invested into the business during the 12 months ended December 31, 2016;
  - US\$1.7 MM primarily related to the drilling of 2 wells on North West Gemsa;
  - US\$6.0 MM on the 3D seismic campaign at South Disouq; and
  - US\$5.6 MM on the drilling of the Manatee-1 well at West Bakassi.
- As at December 31, 2016, SDX had cash on hand of US\$4.7 MM and zero debt. As at February 28, 2017, cash on hand had increased to US\$18.3 MM and the Company remained debt free.

### Operational Highlights

- Average daily oil sales and production service fees equated to 1,196 barrels of oil per day ("BOP/D") for the 12 months to December 31, 2016 and 1,147 BOP/D for the 3 months to December 31, 2016;
- Average daily natural gas and natural gas liquids sales relating to the period October 1, 2013 to December 31, 2016 and recognised in the 3 months to December 31, 2016 equated to 935 and 3,718 barrels of oil equivalent ("BOEP/D") for the 12 and 3 months to December 31, 2016. Out of the 935 BOEP/D, 153 BOE/D was actually generated in the 12 months to December 31, 2016;
- As at March 23, 2017 the Company's share of production from its operations was:
  - North West Gemsa 2,794 BOEP/D
  - Meseda 776 BOP/D
  - Morocco 663 BOE/D

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#### Operational Highlights (continued)

- In North West Gemsa, six successful well workovers were completed in the 12 months ended December 31, 2016;
- In Meseda, following the successful completion of a nine well workover program and strategic initiative focussed on development optimization and increasing production, the partners completed a fluid handling review in H2 2016 which concluded that the Meseda facility treating capacity had to be increased. A tendering process to secure the equipment necessary to increase facility treating capacity has been completed and construction of the new facilities equipment has commenced. Once completed it will be shipped to location and installed;
- In South Disouq the 3D seismic acquisition was completed ahead of schedule and under budget. Processing and interpretation has also been completed and has identified potential for both oil and gas bearing prospects with strong Class III amplitude versus offset (AVO) responses observed in several prospects. Well planning and selection of drilling location was completed as planned and the well operations commenced on March 20, 2017. Enquiries have also been received from a number of operators regarding farming into the licence; and
- At the South Ramadan development concession, a technical review of prospectivity has been completed and an evaluation of project economics is underway. An extension to complete the drilling commitment has been requested from the government with any drilling now being planned for early 2018.

#### Outlook:

##### Egypt

- North West Gemsa
  - Complete 12 well workover program focused on ESP installation/maintenance and tubing maintenance to ensure production uptime;
  - Complete unitization arrangement with offset operator and prepare for any additional development activities;
- Meseda
  - Drill 2 development wells (pending government approval) and 2 exploration wells;
  - Replace up to 6 ESPs;
  - Continue with redevelopment, waterflood program and facility capacity upgrade;
- South Disouq
  - Complete drilling of SD-1X exploration well and reach TD early Q2 2017;
  - Depending on results of SD-1X, decide upon next steps which may include commencing development planning and deciding whether to enter the 2nd exploration phase;

##### Morocco

- Sebou
  - Drill up to 5 wells in H2 2017; 3 development and 2 appraisal;
  - Look to increase Gas volumes to existing customers and agree contracts with, and start supplying volumes to, new customers;
- Lalla Mimouna
  - In H1 2017, high-grade 2 prospects for drilling;
  - Drill these 2 prospects in H2 2017.

##### Corporate

- Continue to explore opportunities to expand asset base in the North Africa region; and
- Continue to minimise costs and crystallise synergies post completion of the acquisition of Circle Oil PLC's businesses in Egypt and Morocco.

#### Paul Welch, President & CEO of SDX Energy, commented:

"I am pleased to report on the solid progress that was made throughout 2016, with high levels of activity across the entire portfolio. At North West Gemsa and Meseda we successfully completed extensive workover programmes, with production expected to double at Meseda over the coming months. Our 3D seismic acquisition at South Disouq was also successfully completed resulting in the identification of both oil and gas bearing prospects for our 2017 drilling campaign. Following the completion of the technical review of prospectivity at South Ramadan, a forward plan for the concession has been developed which minimises the Company's capital exposure in 2017.

"The successful fundraise and acquisition of Circle's assets in Egypt and Morocco, announced in January, demonstrates our ability to deliver on SDX's ambitious growth strategy. With increased production and cash flow as a result of the acquisition, our balance sheet has been further strengthened, leaving us well placed to progress the development of the existing portfolio, while positioning the Company to capitalise on further opportunities that we are actively identifying within the North Africa region."

# Financial & Operating Highlights

## Proforma Combined Businesses

\$000's except per unit amounts	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
<b>Financial</b>					
Gross revenues	3,752	8,436	4,128	18,362	23,030
Royalties	(823)	(3,082)	(686)	(5,448)	(5,467)
<b>Net revenues</b>	2,929	5,354	3,442	12,914	17,563
Operating costs	(1,241)	(1,752)	(2,483)	(5,282)	(6,039)
<b>Netback</b>	1,688	3,602	959	7,632	11,524
Total comprehensive (loss)/income	140	(2,059)	8,542	(27,963)	7,358
per share - basic	-	(0.03)	0.23	(0.39)	0.20
Cash, end of period	4,961	4,725	8,170	4,725	8,170
Working capital (excluding cash)	4,632	7,098	3,382	7,098	3,382
Capital expenditures	188	856	2,404	13,339	6,359
Total assets	43,901	41,617	60,016	41,617	60,016
Shareholders' equity	39,161	37,264	55,246	37,264	55,246
Common shares outstanding (000's)	79,844	79,844	37,642	79,844	37,642
<b>Operational</b>					
Oil sales (bbl/d)	510	468	652	534	759
Gas sales (boe/d)	-	3,273	-	823	-
NGL sales (bbl/d)	-	445	-	112	-
Production service fee (bbl/d)	704	679	704	662	760
<b>Total oil sales and production service fee boe/d</b>	1,214	4,865	1,356	2,131	1,519
Realized oil price (US\$/bbl)	40.84	44.56	38.71	38.00	48.02
Realized service fee (US\$/bbl)	28.32	31.12	27.90	26.26	35.10
<b>Net oil sales and production service fee realized price (\$/bbl)</b>	33.58	36.60	33.09	31.51	41.55
Realized gas price (US\$/mcf)	-	1.22	-	1.22	-
Realized NGL price (US\$/bbl)	-	57.73	-	57.73	-
<b>Net realized price - all products (US\$/boe)</b>	33.58	18.85	33.09	23.55	41.55
Royalties (\$/bbl)	7.37	6.89	5.50	6.99	9.86
Operating costs (\$/bbl)	11.11	3.91	19.91	6.77	10.90
<b>Netback (\$/bbl)</b>	15.10	8.05	7.68	9.79	20.79

## Financial Statements

\$000's except per unit amounts	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
<b>Financial</b>					
Gross revenues	3,752	8,436	4,128	18,362	12,058
Royalties	(823)	(3,082)	(686)	(5,448)	(686)
<b>Net revenues</b>	2,929	5,354	3,442	12,914	11,372
Operating costs	(1,241)	(1,752)	(2,483)	(5,282)	(4,973)
<b>Netback</b>	1,688	3,602	959	7,632	6,399
Total comprehensive (loss)/income	140	(2,059)	8,542	(27,963)	9,400
per share - basic	-	(0.03)	0.23	(0.39)	0.20
Cash, end of period	4,961	4,725	8,170	4,725	8,170
Working capital (excluding cash)	4,632	7,098	3,382	7,098	3,382
Capital expenditures	188	856	2,404	13,339	5,120
Total assets	43,901	41,617	60,016	41,617	60,016
Shareholders' equity	39,161	37,264	55,246	37,264	55,246
Common shares outstanding (000's)	79,844	79,844	37,642	79,844	37,642
<b>Operational</b>					
Oil sales (bbl/d)	510	468	652	534	164
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Royalties (\$/bbl)	7.37	6.89	5.50	6.99	2.03
Operating costs (\$/bbl)	11.11	3.91	19.91	6.77	14.74
<b>Netback (\$/bbl)</b>	15.10	8.05	7.68	9.79	18.97

# Onshore expertise

South Disouq: completed 3D seismic acquisition ahead of schedule and under budget. Given exploration drilling success, we anticipate a rapid increase in high margin production.

**10,278** boe/d

Combined Egyptian daily average gross production for the twelve months to December 31, 2016



**16.9** mmboe

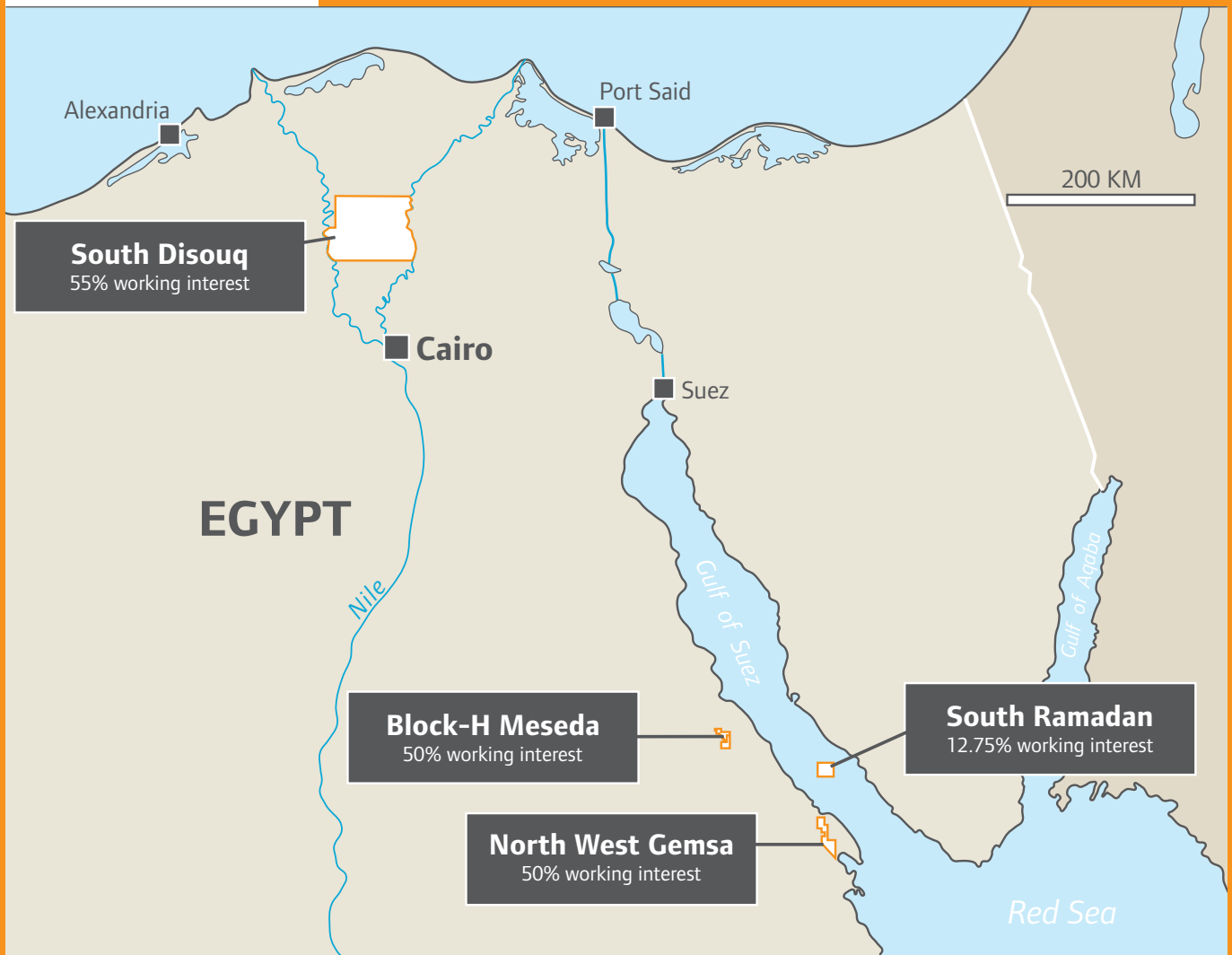
Asset reserves - North West Gemsa and Meseda (gross) at December 31, 2016



# Where We Operate

## Egypt

### Our assets



SDX Energy is actively involved in 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.

# 1,405km<sup>2</sup>

Combined asset area

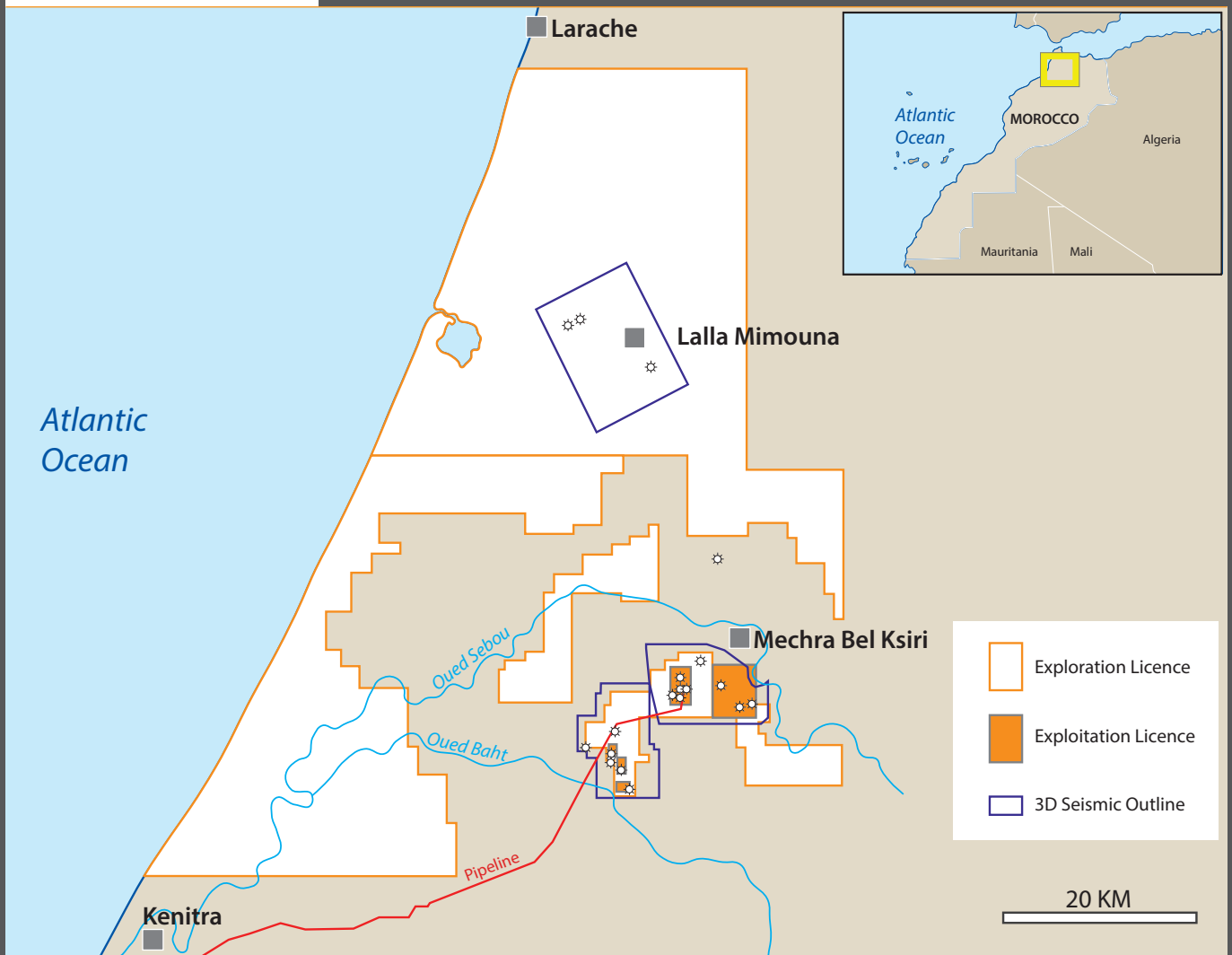
# 4

 concessions

# Where We Operate

## Morocco

### Our assets



Sebou, a 135km<sup>2</sup> concession and Lalla Mimouna, a 2,211km<sup>2</sup> concession are both located in the Rharb Basin of northern Morocco. These concessions were acquired by SDX Energy in January 2017 from Circle Oil plc.

**2,246km<sup>2</sup>**  
Combined asset area

**2** concessions  
75% working interest in each

# Chairman's Statement

2016 was a pivotal year for SDX as we set, and began to deliver, our clear, high margin growth strategy.

Over the period, we made considerable in-roads into establishing SDX as a North African focused E&P of scale.

Despite the macro economic challenges that continued to hamper many of SDX's peers, the Company was highly successful in moving forward its portfolio of Egyptian assets, and in laying the foundations for the subsequent expansion of the business, both in Egypt and into Morocco.

A clear highlight of 2016 was the successful admission of SDX's shares to trading on AIM. London has long been established as a natural home for ambitious E&P companies. Our high margin, onshore production and development assets were recognised as presenting an attractive investment opportunity.

Consequently, we were able to accompany the May 2016 secondary listing on AIM with a fund raising of US\$11 million. We were very heartened by the supportive response of the investment community to the SDX story and were extremely pleased to welcome a number of new institutional shareholders onto the register.

Post year end, we were very pleased to be able to announce the successful completion of the acquisition of Circle Oil Plc's assets in Egypt and Morocco and a concurrent US\$40 million fund raise. This was a company transforming transaction and was firmly in line with our stated growth strategy. It also demonstrated the management team's ability to identify and crystallise high value distressed asset opportunities.

In September 2016, we were pleased to welcome both Michael Raynes, Non Executive Director, and Mark Reid, Chief Financial Officer, to the Board of Directors. Both have already made significant contributions to the company. Paul Moase and Barrie Wright, formerly Non Executive Directors, retired from the Board and I reiterate my thanks for their extremely valuable service during the period of their directorships.

On behalf of the Board, I would like to thank all our stakeholders for their continued support, and in particular our staff in Egypt, Morocco and the UK, our host governments, partners and investors. We are pleased with the progress that was made throughout 2016 and believe that we are well placed to create further value through 2017 and beyond.

**Michael Doyle**  
Non-Executive Chairman



# Chief Executive's Statement

I am pleased to report that throughout 2016 considerable progress was made across SDX's balanced portfolio of high margin onshore production and development assets. As I write to you today, SDX is a considerably transformed business from one year ago.

Average daily oil sales and production service fees for the year equated to 1,196 barrels of oil per day ("BOPD") and average daily natural gas and natural gas liquids production equated to 935 barrels of oil equivalent per day ("BOEPD").

I am very pleased to report significant progress across the portfolio throughout 2016. At North West Gemsa, gross production averaged 5,344 bopd and we completed six successful well workovers during the reporting period. At Meseda, gross production averaged 3,439 bopd following the successful completion of a nine well workover program. SDX is expecting to double production at Meseda over the coming months, and a strategy was implemented during the year, focused on development optimization, in order to achieve this. 2016 saw the completion of the 3D seismic acquisition at South Disouq. This was completed ahead of schedule and under budget. Seismic data processing has been completed, with interpretation having identified potential for both oil and gas bearing prospects. At South Ramadan we successfully completed the technical review of prospectivity on the development concession and an evaluation of project economics is currently underway which will assist in determining the optimum way forward for SDX in this concession.

Strong capital discipline is at the heart of everything we do. SDX remains a very low cost producer targeting production costs of less than US\$10 per barrel which positions us firmly at the lower end of the industry cost curve.

We are firmly committed to our growth strategy, as was clearly evidenced by the successful acquisition of Circle Oil's assets. For a consideration of US\$28.1 million, SDX acquired total production of 3350 boepd and 2P reserves of 4.69 MMboe, as well as working capital of US\$21.5 million excluding deferred income and decommissioning. In addition to increasing our working interest in Egypt's North West Gemsa Concession to 50%, the Morocco country entry saw us secure a 75% working interest in the Sebou production and Lalla Mimouna exploration concessions.

As at February 28, 2017 SDX had a strong liquidity position with US\$18.3 million cash on hand, and zero debt. This leaves the company well placed to not only progress the development of our existing well balanced portfolio, but also to continue to capitalise on further opportunities that it is actively identifying in the North Africa region. Egypt provides access to not only some of the best geology in the world, where multiple world class hydrocarbon basins have been discovered, but it also has an excellent operating environment in which SDX has a successful track record. In Morocco, which we entered through the Circle transaction, we enjoy one of the best fiscal regimes within the industry, as well as access to the very attractive domestic gas market.

2017 promises to be another extremely active year for the company. The work over programme continues apace at North West Gemsa, and the facilities upgrade and remaining six well workover programme is underway at Meseda, where production is expected to double over the course of the year. On March 23, 2017 we spud the carried SD-1X exploration well at South Disouq. South Ramadan sees a development well being planned during the second half, and in Morocco exploration and development drilling is anticipated in the second half of the year.

Finally, I would like to thank the Board for their ongoing support, and to reiterate the Chairman's gratitude to the wider SDX stakeholders and team, and in particular, to all of our shareholders for their continuing support.

**Paul Welch**  
Chief Executive Officer

## Strategy overview

**SDX Energy's strategy is simple: "Create value through low cost production growth".**



**Deliver increased production**



**Increase value through exploration**



**Growth through low cost asset acquisition**

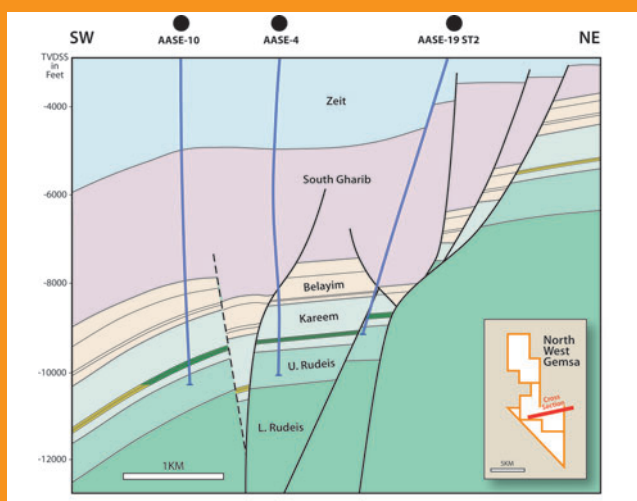
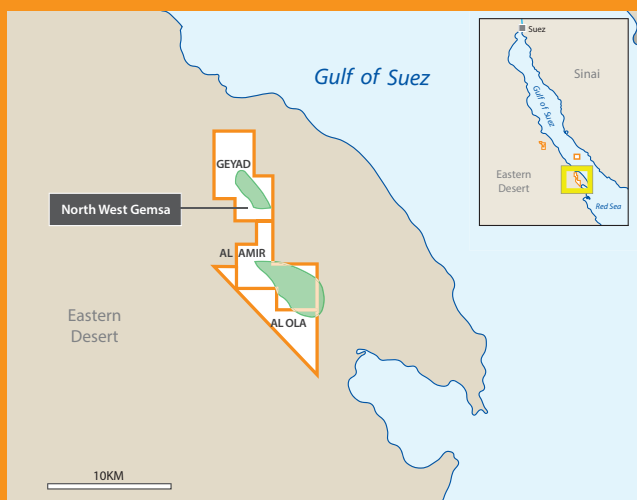
# Review of Operations

## Egypt

### North West Gemsa Concession

#### Overview

The North West Gemsa concession is located in the Eastern Desert, 300km southeast of Cairo.



For more information please visit our website: [www.sdxenergy.com](http://www.sdxenergy.com)

The concession is 82.7km<sup>2</sup> 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 and Ganoub El Wadi (a subsidiary of the Egyptian General Petroleum Corporation). On January 27th, 2017 SDX Energy acquired Circle Oil plc's interests in the North West Gemsa Concession, increasing SDX Energy's interest in the concession from 10% in 2016 to 50% at present (Zenhua Oil (the operator) has the remaining 50%). Operatorship remains unchanged.

The Al Amir SE and Geyad fields produce light oil (40-42° API oil; priced at Brent less a quality discount and a marketing fee) from two reservoir intervals; the Miocene-aged Shagar and Rahmi sandstones of the Kareem Formation. 2016 production averaged 6,870 BOEPD (687 BOEPD net to SDX at a 10% interest level) from the Al Amir SE and Geyad fields. Cumulative production from North West Gemsa for 2016 was 2,496 MBOE, bringing total production over the life of the fields to more than 24.79 million BOE.

#### 2016 Activity

In 2016 two development wells were drilled and five workovers were completed in the Al Amir SE and Geyad fields. The workover program was focused on wellbore maintenance and is expected to increase well production uptime. A summary of the results from the two development wells are 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; 48/64<sup>th</sup> choke). Improved drilling technique allowed the original wellbore to be drilled for 30% under approved expenditure limits, and the sidetrack for 17% under approved expenditure limits, greatly improving well economics.

**Al Amir SE-24 (AASE-24):** The AASE-24 was spud in February, 2016 and was subsequently side-tracked (AASE-24ST) to a more geologically favourable location reaching a TD of 9,925 feet 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. The well was tested at an average rate of 1,714 BOPD and 3.062 MMscf/day.

During 2016 six workovers were completed in the Al Amir SE and Geyad fields. This program was focused on wellbore maintenance and is expected to increase well production uptime.

#### Unitization

Unitization talks with the offset operator have continued to progress throughout 2016 and resolution is expected in 2017.

#### 2017 Work Program

The 2017 work program comprises a 12 well workover program in the Al Amir SE and Geyad fields. This program is focused on ESP installation and maintenance as well as tubing maintenance to ensure asset integrity and production uptime.

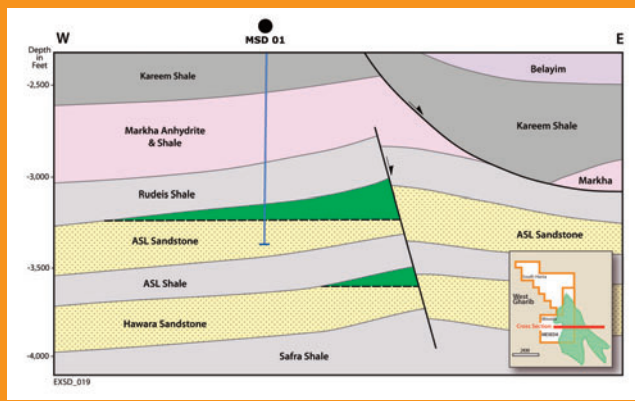
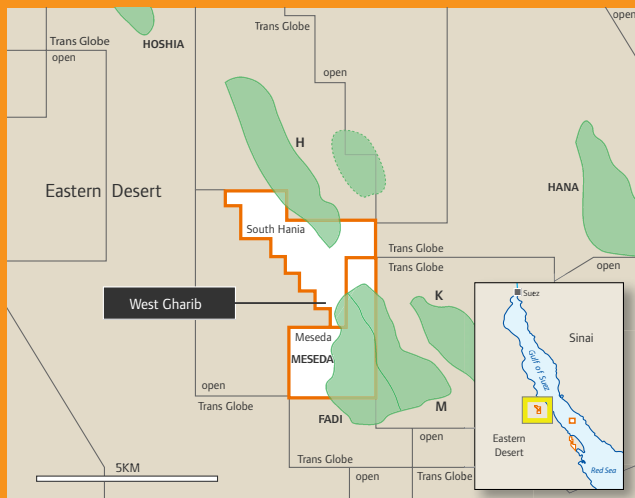
# Review of Operations

## Egypt

### Block-H Meseda

#### Overview

Block-H is located in the Eastern Desert, 230km southeast of Cairo.



For more information please visit our website: [www.sdxenergy.com](http://www.sdxenergy.com)

The block is 22km<sup>2</sup> 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 production service agreement, which allows for lower cost operations than the traditional joint venture structure. SDX Energy has a 50% working interest, while Dublin International Petroleum (the operator) holds the remaining 50% working interest.

Meseda field produces from the high-quality Miocene-aged Asl sands of the Rudeis Formation. 2016 production from Meseda field averaged 3,439 BOPD (662 BOPD net to SDX Energy) of 16-18° API oil. Cumulative production through the end of 2016 for Meseda field was 6,418 MBO, with cumulative production for 2016 of 1,266 MBO.

#### 2016 Activity

During 2016 a nine well workover program was conducted in the Meseda field. The program consisted of tubing and pump replacements, well bore cleanouts, and adding perforations aimed at ensuring future production uptime.

The partners conducted an operational strategic review of the asset during 2016 to determine the benefits of a water injection program, how to best optimize production from existing wells, and to determine the future development drilling and exploration programs. Results from the studies indicate that both field production rates and oil recovery factors can be increased. As such, the partners plan to expand the existing facilities and undertake a further pump replacement and upgrade program as described below in the 2017 Work Program.

#### 2017 Work Program

Following the 2016 operational strategic review of the asset described above, the partners plan to drill two exploration wells, two development wells (pending government approval) and conduct up to six pump replacements and upgrades in existing wells to increase production. A tender for the necessary equipment is currently being conducted and the campaign is expected to begin in Q2 2017. Furthermore, it is planned to expand the central processing facility.

This expansion will accommodate the planned increase in production, enabling the central processing facility to handle 20,000 barrels of fluid per day compared to its current operating range of 12,000-14,000 barrels of fluid per day. The facility design work has been completed and long lead time equipment has been ordered. It is anticipated that construction work will begin in Q2 2017 with minimal disruption to existing production.

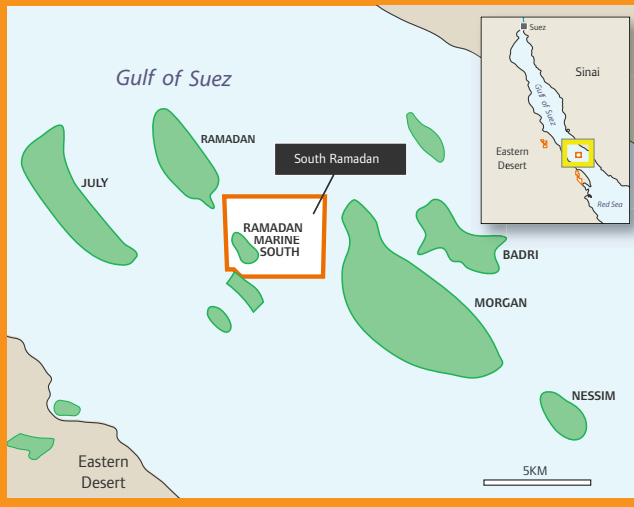
# Review of Operations

## Egypt

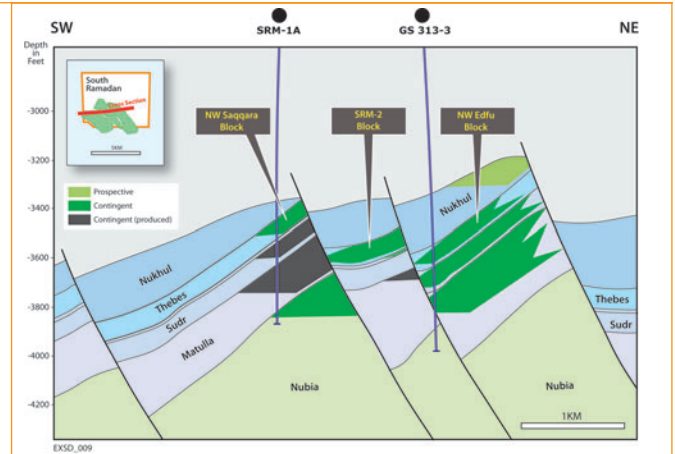
### South Ramadan Concession

#### Overview

The 26km<sup>2</sup> South Ramadan development concession is located in the offshore Gulf of Suez, between the prolific Ramadan and Morgan fields.



For more information please visit our website: [www.sdxenergy.com](http://www.sdxenergy.com)



SDX Energy holds a 12.75% working interest, with Pico 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.

#### 2016 Activity

In 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 has been completed. The partners are currently in discussions with government authorities to request an extension to complete the drilling commitment.

#### 2017 Work Program

In 2017 the partners anticipate conducting additional studies to evaluate potential appraisal drilling options. Drilling operations are not expected to commence until after 2017.

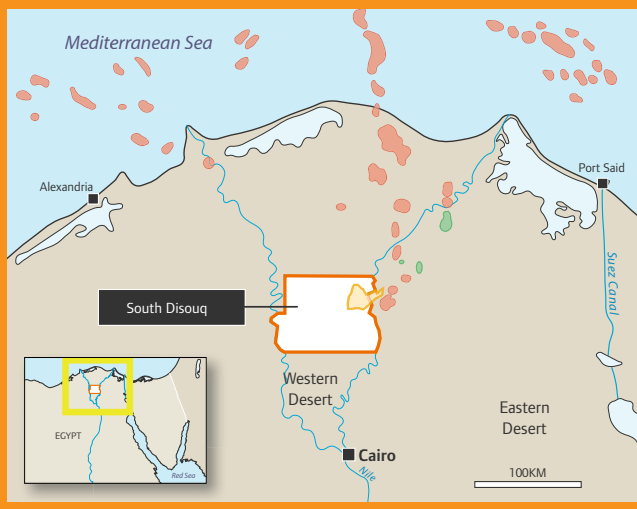
# Review of Operations

## Egypt

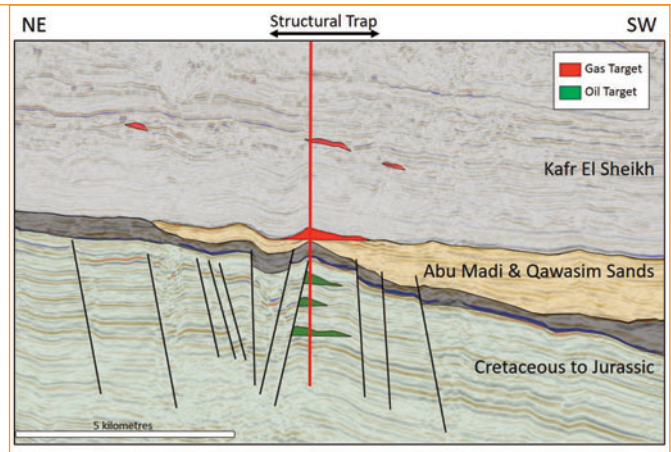
### South Disouq Concession

#### Overview

South Disouq is a 1,275km<sup>2</sup> concession located 65km north of Cairo in the Nile Delta region.



For more information please visit our website: [www.sdxenergy.com](http://www.sdxenergy.com)



The concession is along trend with numerous, prolific gas fields in the Abu Madi Formation. SDX Energy holds a 55% interest and operates the concession, with IPR holding the remaining 45% interest.

#### 2016 Activity

SDX Energy conducted seismic acquisition operations in the first half of 2016, acquiring 300km<sup>2</sup> of high-quality 3D seismic data on schedule and under budget, with zero reportable HSE incidents. Seismic processing was conducted in the second half of 2016 and the final pre-stack time migration (PSTM) and pre-stack depth migration (PSDM) volumes have been delivered.

The 3D seismic data confirmed the extension of the Abu Madi play fairway into the South Disouq concession. Subsequent interpretation of the 3D seismic data has also highlighted the presence of several structural closures both at the Abu Madi level, which is productive in several nearby fields, and at deeper structural levels that correspond to producing horizons present in Egypt's Western Desert region.

Planning for the initial exploration well, SD-1X, started in Q3 2016. The drilling location has been finalized, all of the required government approvals have been granted, and the well design and drilling program have been finalized.

#### 2017 Work Program

In Q1 2017 Site construction was completed, conductor pipe installed, and the drilling rig mobilized to location. It is anticipated that the SD-1X exploration well which spud on March 23, 2017 is expected to reach TD in mid-late April 2017. This well will satisfy the outstanding work commitments for the initial work program and will test target intervals in the Kafr El Sheikh, Abu Madi, Apollonia, and Abu Roash Formations. The concession has been extended by 6 months to allow the results from the well to be incorporated into the decision to enter into the second exploration phase.

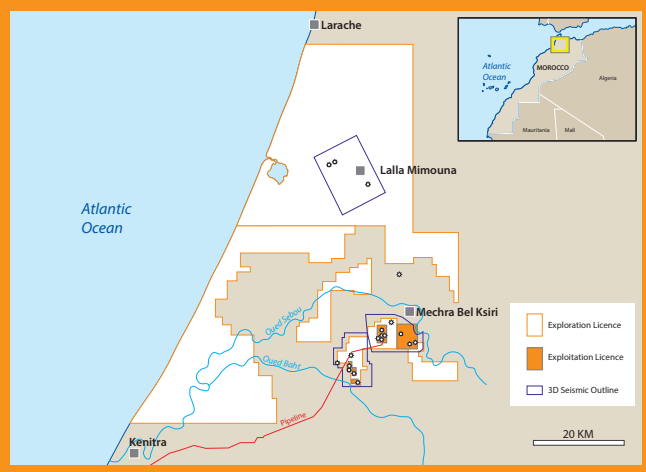
# Review of Operations

## Morocco

### Sebou Concession & Lalla Mimouna Concession

#### Overview

Sebou, a 135km<sup>2</sup> concession and Lalla Mimouna, a 2,211km<sup>2</sup> concession are both located in the Rharb Basin of northern Morocco, was acquired by SDX Energy in January 2017 from Circle Oil plc.



For more information please visit our website: [www.sdxenergy.com](http://www.sdxenergy.com)

#### Sebou

2D and 3D seismic data have been collected over most of the concession and sixteen wells have been drilled to date, resulting in 13 natural gas discoveries. SDX has a 75% working interest and operates the concession, with ONHYM (Office National Des Hydrocarbures Et Des Mines; the Moroccan national oil company) holding the remaining 25% interest. The gas produced from the concession is sold to customers located in the Kenitra industrial zone some 55km from the field. The sales points in Kenitra are connected to the field through a 55km 8-inch pipeline which is 75% owned by the Company (with the other 25% owned by ONHYM). At the time of acquisition, (January 27th, 2017), gross average annual production was c.6MMscf/day (4.5MMscf/d net to SDX Energy).

Production is currently from the Miocene-aged Hoot and Guebbas formations, which are high quality reservoir intervals with favourable properties. Interpretation of the 3D seismic data has highlighted several additional infill development drilling locations and near-field exploration locations. As of July 1st, 2016, total proved + probable reserves were estimated at 7.1 Bcf (5.3 Bcf net).

#### 2017 Work Program

SDX Energy is currently planning drilling activities for the second half of 2017 and anticipates drilling three development wells and two appraisal wells in the concession. The three development wells are planned in the Kisiri field and will ensure deliverability to existing customers, allow volumes to start being supplied to new customers and increase overall gas production capacity. The two appraisal wells will test seismic anomalies similar to those present in successful offset wells. All the selected locations are adjacent to existing infrastructure and can be placed on production quickly.

#### Lalla Mimouna

SDX has a 75% working interest and operates the concession, with ONHYM holding the remaining 25% interest.

Interpretation of a 154km<sup>2</sup> of 3D seismic data previously acquired in the concession has highlighted a number of amplitude-supported prospects across the acreage at stratigraphic levels equivalent to those producing in the Sebou concession.

#### 2017 Work Program

SDX Energy anticipates drilling two of the high-graded prospects in the second half of 2017.

# Review of Operations

## Cameroon

### Bakassi West Concession

#### Overview

The Manatee 1-X exploration well concession (SDX Energy, 35%; Dana Petroleum, 55%, operator; SoftRock Oil and Gas, 10%) was drilled in Q1/Q2 2016.



The Manatee 1-X reached a TD of 1,447 meters after intersecting 26 meters of gas bearing section of varying quality on March 27, 2016. Although the well represents an important discovery in the basin, gas market economics did not support further activity in the area. As such SDX Energy exited the concession, assigning its interest in the concession to SoftRock Oil and Gas, effective July 31, 2016 (as did partner Dana Petroleum). All in-country operations and associated business have been concluded.

 For more information please visit our website:  
[www.sdxenergy.com](http://www.sdxenergy.com)

# 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, Gaffney, Cline & Associates, London, England (“GCA”) in their report dated March 16, 2017.

## Reconciliation of gross reserves as at December 31, 2016 Forecast prices and costs

	Light & medium crude oil			Heavy crude oil			Natural gas			LPGs			BOE		
	Proved plus probable			Proved plus probable			Proved plus probable			Proved plus probable			Proved plus probable		
	Proved (mmbbl)	Probable (mmbbl)	probable (mmbbl)	Proved (mmbbl)	Probable (mmbbl)	probable (mmbbl)	Proved (bcf)	Probable (bcf)	probable (bcf)	Proved (mmbbl)	Probable (mmbbl)	probable (mmbbl)	Proved (mmboe)	Probable (mmboe)	probable (mmboe)
<b>December 31, 2015</b>	<b>0.56</b>	<b>0.21</b>	<b>0.77</b>	<b>1.14</b>	<b>1.32</b>	<b>2.46</b>	<b>632</b>	<b>233</b>	<b>865</b>	<b>0.02</b>	<b>0.01</b>	<b>0.03</b>	<b>1.83</b>	<b>1.58</b>	<b>3.41</b>
2016 Production	(0.20)	-	(0.20)	(0.30)	-	(0.30)	(259.95)	-	(259.95)	(0.01)	-	(0.01)	(0.55)	-	(0.55)
Technical Revisions	0.05	(0.08)	(0.02)	0.77	(0.78)	(0.01)	60.06	(84.82)	(24.76)	0.00	(0.00)	(0.00)	0.84	(0.87)	(0.04)
Economic Factors	(0.08)	0.04	(0.04)	(0.03)	(0.04)	(0.08)	(129.40)	14.90	(114.50)	(0.01)	-	(0.01)	(0.14)	(0.00)	(0.15)
<b>December 31, 2016</b>	<b>0.33</b>	<b>0.17</b>	<b>0.50</b>	<b>1.58</b>	<b>0.50</b>	<b>2.08</b>	<b>303</b>	<b>163</b>	<b>466</b>	<b>0.01</b>	<b>0.00</b>	<b>0.01</b>	<b>1.97</b>	<b>0.71</b>	<b>2.68</b>

In Meseda field reserves have been shifted from probable to proved as the completion of the reservoir studies and the finalization of facility upgrades have increased certainty in the expected recovery factors.

Although spot oil prices for Brent have improved since 2015, the forward-looking price deck used by GCA in their independent evaluation of reserves is lower than the forward-looking price deck used by DeGolyer & MacNaughton. This change to a more conservative price deck is responsible for a majority of the revisions ascribed to “economic factors” in the reconciliation table presented above.

## Summary of oil and gas reserves at December 31, 2016

Category	Light & medium crude oil		Heavy crude oil		Natural gas		LPGs	
	Gross (mmbbl)	Net (mmbbl)	Gross (mmbbl)	Net (mmbbl)	Gross (bcf)	Net (bcf)	Gross (mmbbl)	Net (mmbbl)
Proved Developed Producing	0.306	0.141	3.210	1.230	0.274	0.127	0.006	0.003
Proved Developed Non-Producing	0.025	0.012	0.915	0.350	0.030	0.013	0.001	0.000
<b>Total Proved</b>	<b>0.331</b>	<b>0.153</b>	<b>4.125</b>	<b>1.580</b>	<b>0.304</b>	<b>0.140</b>	<b>0.007</b>	<b>0.003</b>
Probable	0.173	0.080	1.325	0.500	0.162	0.075	0.004	0.002
<b>Total Proved plus Probable</b>	<b>0.504</b>	<b>0.233</b>	<b>5.450</b>	<b>2.080</b>	<b>0.466</b>	<b>0.215</b>	<b>0.011</b>	<b>0.005</b>
Possible	0.223	0.103	1.755	0.670	0.210	0.097	0.005	0.002
<b>Total Proved plus Probable plus Possible</b>	<b>0.727</b>	<b>0.336</b>	<b>7.205</b>	<b>2.750</b>	<b>0.676</b>	<b>0.312</b>	<b>0.016</b>	<b>0.007</b>

## Summary of net present values of future net revenues as of December 31, 2016 Forecast prices and costs (in US\$ millions)

Category	After income tax Discounted at				
	0%	5%	10%	15%	20%
Proved Developed Producing	33.9	30.01	26.98	24.58	22.63
Proved Developed Non-Producing	9.02	6.74	5.16	4.02	3.16
<b>Total Proved</b>	<b>42.92</b>	<b>36.75</b>	<b>32.14</b>	<b>28.6</b>	<b>25.8</b>
Probable	20.78	14.7	10.97	8.57	6.94
<b>Total Proved plus Probable</b>	<b>63.7</b>	<b>51.45</b>	<b>43.11</b>	<b>37.16</b>	<b>32.75</b>
Possible	30.97	21.77	16.15	12.53	10.1
<b>Total Proved plus Probable plus Possible</b>	<b>94.66</b>	<b>73.22</b>	<b>59.27</b>	<b>49.7</b>	<b>42.84</b>

### 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 within GCA’s report dated March 16, 2017 filed on the SEDAR website at [www.sedar.com](http://www.sedar.com).



# Board of Directors

## Michael Doyle

### Non-Executive Chairman

Mr Doyle is a Professional Geophysicist and a Certified Corporate Director with more than 35 years' industry experience. Mr Doyle is a principal of privately held CanPetro International Ltd and its affiliates. He has been a director of Equal Energy Ltd since 1997.

Mr Doyle was previously a principal and Chief Executive Officer of Petrel Robertson Ltd where he was responsible for providing advice and project management to clients throughout the world. Prior to that, he held a variety of exploration positions at Dome Petroleum and Amoco Canada. Mr Doyle holds a Bachelor of Science (Maths and Physics) from University of Victoria.

Mr Doyle was a founding director and Chairman of Madison PetroGas from its inception in 2003.

## Paul Welch

### President, Chief Executive Officer and Director

Mr Welch is an international energy executive with over 25 years of industry experience having worked for Shell Oil Company and several large independents including Hunt Oil Company, Pioneer Natural Resources and most recently as CEO of AIM listed explorer Chariot Oil and Gas.

Mr Welch graduated from the Colorado School of Mines with both a Bachelor and Master's degrees in Petroleum Engineering. He also holds an MBA in Finance from the Southern Methodist University in Dallas, Texas. Mr Welch was appointed CEO of Sea Dragon Energy in April 2013 and became a CEO of SDX Energy following the merger with Madison PetroGas in October 2015.

## David Mitchell

### Non-Executive Director

Mr Mitchell is a successful oil and gas executive with more than 35 years' proven track record in the international arena, including with BP and Nexen.

During this time, Mr Mitchell discovered and built projects with his teams in the Middle East, West Africa, Latin America and the North Sea. He has lived and worked in a number of countries including a year with BP Egypt. Mr Mitchell received his BSc Honours, Geology from the University of London and his MPhil Mining Engineering from the University of Nottingham, UK.

Mr Mitchell was appointed CEO of Madison PetroGas on joining in 2008, building the company prior to the merger with Sea Dragon Energy.

## David Richards

### Non-Executive Director

Mr Richards is a Fellow of the Institute of Chartered Accountants of Alberta. He founded Network Capital Inc., a successful Calgary based investment management company focused on private equity, in 1997 and currently serves there as Managing Director.

Mr Richards formerly served as a senior tax partner with both PricewaterhouseCoopers and Arthur Andersen and Co. He is a Past President of the Alberta Chamber of Commerce and a past Vice President of the Calgary Chamber of Commerce. Mr Richards is currently a director of Parkbridge Lifestyle Communities Inc. and a director of Realex Properties Corp. Previously public board experience includes Boardwalk Equities, Alliance Atlantis Movie Distribution Income Fund, Forte Energy and Bonnetts Energy Services Trust.

## Mark Reid

### Chief Financial Officer and Director

Mr Reid has over 20 years' experience in numerous sectors including the Financial Services, Investment Banking and Oil and Gas industries. He has had significant exposure to M&A transactions and the equity and debt capital markets. Most recently, between 2009 and 2015 he was Finance Director at AIM listed Aurelian Oil and Gas plc and Chariot Oil and Gas Limited. Prior to this, he spent 7 years as an Emerging Markets E&P banker and was Head of Oil and Gas in the London office of BNP Paribas Fortis. He has also spent 7 years with Ernst & Young Corporate Finance advising on M&A, IPO and other fundraising transactions.

Mr Reid has an MBA (Distinction) from Strathclyde University, is a Member of the Institute of Chartered Accountants of Scotland, a Fellow of the Chartered Association of Certified Accountants and a Member of the Chartered Institute for Securities and Investment.

## Michael Raynes

### Non-Executive Director

Mr Raynes is the Managing Partner of MEA Energy Advisory UK LLP, an Energy focussed investment advisory partnership, and a Director of MEA Energy Investment Company Limited. MEA Energy Investment Company Limited is a significant shareholder in SDX Energy Inc. Previously Mr Raynes was the Chief Operating Officer of Waha Capital with responsibility for all investing activity including Sales & Trading, Private Equity, Infrastructure, Real Estate and Energy. He brings with him an intricate understanding of investing in the Middle East and North Africa and has established a strong track record of adding value to businesses and generating strong returns for investors.

Prior to Michael's role at Waha Capital, he was a Senior Investment Banker with Barclays Capital in London.

# Remuneration Report

The remuneration of the directors for the year ended December 31, 2016 was as follows:

	Fees/basic salary US\$	Pension US\$	Benefits in kind US\$	Termination benefits US\$	Total 2016 US\$	Total 2015 US\$
Paul Welch <sup>(1)</sup>	450,000	-	65,386	-	515,386	547,246
Said Arrata <sup>(2)</sup>	-	-	-	-	-	461,550
Olivier Serra <sup>(3)</sup>	-	-	-	-	-	735,428
Mark Reid <sup>(4)</sup>	270,088	13,504	1,358	-	284,950	43,310
Ken Fitzgerald <sup>(5)</sup>	-	-	-	-	-	14,668
Barry Swan <sup>(5)</sup>	-	-	-	-	-	14,668
Robert Moffat <sup>(5)</sup>	-	-	-	-	-	14,668
Paul Moase <sup>(7)</sup>	18,750	-	-	-	18,750	21,177
Michael Doyle <sup>(6)</sup>	35,000	-	-	-	35,000	9,112
David Mitchell <sup>(6)</sup>	30,000	-	-	-	30,000	6,509
David Richards <sup>(6)</sup>	35,000	-	-	-	35,000	9,112
Barrie Wright <sup>(6)(7)</sup>	18,750	-	-	-	18,750	7,810
Michael Raynes <sup>(8)</sup>	-	-	-	-	-	-

(1) Mr. Welch was appointed President and Chief Executive Officer on April 12, 2013.

(2) On April 12, 2013 Mr. Arrata resigned as Chief Executive Officer but continued on as Chairman of the Corporation. Mr. Arrata resigned as Chairman of the Corporation on September 30, 2015 and in accordance with his contract of employment is entitled to receive \$500,000 for loss of office.

(3) Mr. Serra resigned his position of Chief Financial Officer with the Corporation, by mutual consent, on November 13, 2015. In accordance with his contract of employment Mr. Serra is entitled to receive 200,000 GBP in lieu of notice and an ex gratia payment of 83,333 GBP.

(4) Mr. Reid was appointed Chief Financial Officer on November 13, 2015 and was appointed as a director on September 26, 2016.

(5) Messrs. Fitzgerald, Swan and Moffat resigned as directors effective September 30, 2015 upon completion of the business combination between the Corporation and Madison Petrogas Ltd.

(6) Messrs. Doyle, Mitchell, Richards and Wright were appointed directors effective October 1, 2015 upon completion of the business combination between the Corporation and Madison Petrogas Ltd.

(7) Messrs. Moase and Wright retired as directors on September 26, 2016.

(8) Mr. Raynes was appointed as a director on September 26, 2016. He received no fees or other remuneration for this role as he is a representative of a major shareholder.

## Stock-based compensation

During the period it was determined that one of the inputs to the Black-Scholes option pricing model, specifically volatility of returns, required to be updated following the business combination between Sea Dragon and Madison, with a US0.1 million non-cash stock based compensation credit being recognized for the twelve months ended December 31, 2016. As a result, for this period the Company did not incur any share-based payment charges in respect of the above named directors.

In 2015 the Company incurred share-based payment charges of US\$796k in respect of the above named directors.

Share options granted for directors who served during the year are as follows:

	Options held at January 1, 2016	Granted during the year	Lapsed/forfeited during the year	Options held at December 31, 2016
<b>Executive directors</b>				
Paul Welch	800,000	-	-	800,000
Mark Reid	400,000	-	-	400,000
<b>Non-executive directors</b>				
Michael Doyle	160,000	-	-	160,000
David Mitchell	160,000	-	-	160,000
David Richards	160,000	-	-	160,000
Paul Moase <sup>(1)</sup>	160,000	-	(160,000)	-
Barrie Wright <sup>(1)</sup>	160,000	-	(160,000)	-

(1) The share options held by Messrs. Moase and Wright lapsed on their retirement as directors.

# Corporate Governance Statement

## General

The board of directors (the “Board”) of SDX Energy Inc. (the “Corporation”) recognizes that good corporate governance is of fundamental importance to the success of the Corporation. The Corporation’s governance practices are the responsibility of the Board.

This Statement of Corporate Governance Practices sets out the Board’s assessment of the Corporation’s governance practices in accordance with National Instrument 58-101 – Disclosure of Corporate Governance Practices (“NI 58-101”) and National Policy 58-201 – Corporate Governance Guidelines (“NP 58-201”). The Corporation’s governance practices are generally consistent with the practices and guidelines set out in NI 58-101 and NP 58-201.

## Board of Directors

The Corporation’s board of directors consists of six members namely Michael Doyle, Paul Welch, David Mitchell, David Richards, Mark Reid and Michael Raynes. The Board has reviewed the status of each director to determine whether such director is “independent” as defined in NI 58-101. As a result of such review, and after consideration of all business, family and other relationships among the directors and the Corporation, the Board of Directors has determined that Messrs. Doyle, Mitchell, Richards and Raynes are each independent within the meaning of NI 58-101. Messrs. Welch and Reid are not independent under NI 58-101 as they continue to be officers of the Corporation.

## Directorships

Directorships held by directors of the Corporation in other reporting issuers are set forth below:

Director	Directorships held
Michael Doyle	Richmond Road Capital Corp.
David Richards	Wilmington Capital Management Inc. Mood Media Inc. Standard Exploration

## Orientation and continuing education

The Board is responsible for the orientation and education of new members of the board of directors and all new directors are provided with copies of the Corporation’s board and committee mandates and policies, the Corporation’s by-laws, documents from recent Board meetings and other reference materials relating to the duties and obligations of directors, the business and operations of the Corporation. New directors are also provided with opportunities for meeting and discussions with senior management and other directors. Prior to joining the board, each new director will meet with the Chief Executive Officer of the Corporation. Such officer is responsible for outlining the business and prospects of the Corporation, both positive and negative, with a view to ensuring that the new director is properly informed to commence his duties as a director. Each new director is also given the opportunity to meet with the auditors and counsel to the Corporation. As part of the annual Board of Directors’ assessment process, the Board of Directors determines whether any additional education and training is required for its members.

## Ethical business conduct

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, the Corporation has adopted a Code of Conduct which addresses the Corporation’s continuing commitment to integrity and ethical behaviour. The Code of Conduct establishes procedures that allow directors, officers and employees of the Corporation to confidentially submit their concerns to the Chief Executive Officer or the Chairman of the Board regarding questionable ethical, moral, accounting or auditing matters, without fear of retaliation. To the Corporation’s knowledge there have been no departures from this Code of Conduct that would necessitate the filing of a material change report. A copy of the Code of Conduct is available to review at the head office of the Corporation during business hours.

## Nomination of Directors

The Board as a whole is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders of the Corporation, with the goal of ensuring that the board consists of an appropriate number of directors who collectively possess the competencies identified as being appropriate to the effectiveness of the board as a whole.

## Compensation

The Compensation Committee is responsible for reviewing the Corporation’s overall compensation strategy, and is responsible for reviewing and recommending for approval the salaries and compensation of the Corporation’s executive officers.

The Compensation Committee also reviews the compensation of the outside directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable organizations.

See page 16 for details of compensation paid to Directors during 2016.

# Corporate Governance Statement

## continued

### Board Committees

The Corporation's Board of Directors has three committees, the Audit Committee, the Compensation Committee and the Reserves Committee.

#### Audit Committee

The Audit Committee consists of David Richards (Chair), Michael Doyle and Michael Raynes. All members of the Audit Committee have been determined to be independent, and all members are considered to be financially literate, as such terms are defined in National Instrument 52-110 – Audit Committees (“NI 52-110”).

The Audit Committee of the Corporation is a committee of the Board established for the purpose of overseeing the accounting and financial reporting process of the Corporation. The Audit Committee has set out its responsibilities and composition requirements in fulfilling its oversight in relation to the Corporation's internal accounting standards and practices, financial information, accounting systems and procedures.

The Corporation has not adopted specific policies and procedures for the engagement of non-audit services, however, the duties of the Audit Committee include the review and pre-approval of all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees) and the consideration of the effect of such services on the independence of the external audit.

#### Compensation Committee

The Compensation Committee is comprised of David Richards (Chair) and Michael Doyle. The Compensation Committee is comprised of non-management members of the board of directors and is required to convene at least annually.

The Compensation Committee exercises general responsibility regarding the overall compensation policy for the senior employees and executive officers of the Corporation. Subject to the approval of the Board, it is responsible for: (i) recommending the salary and benefits of the Chief Executive Officer, subject to terms of any existing contractual arrangements; (ii) recommending the general compensation structure and policies and programs for the Corporation and the salary and benefit levels for the senior officers and management; (iii) reviewing the Corporation's stock option plan and authorizing its use, determining the number of options, and the terms thereof, that may be issued under the stock option plan of the Corporation during any particular period and issuing or authorizing the issuance of such options in accordance with the plan; (iv) reviewing and making recommendations to the Board on issues that arise in relation to any employment contracts in force from time to time; (v) reviewing annually all other benefit programs for salaried personnel; (vi) reviewing and approving severance arrangements for senior officers and management; (vii) reviewing the executive compensation disclosure required to be included in the information circular for the shareholders' annual meeting; (viii) recommending the compensation for members of the Board, as well as for committee members, including the compensation of the Chairman of the Board and any chairman of a Board committee; (ix) reviewing and making recommendations on the succession plan for the Chief Executive Officer and for key employees of the Corporation; and (x) reviewing and making recommendations on any material changes in human resources policy, procedure, remuneration and benefits.

#### Reserves Committee

The Board has adopted a mandate for the Reserves Committee, which is currently comprised of David Mitchell (Chair) and Michael Doyle. The Reserves Committee is responsible for meeting with the independent engineering firm commissioned to conduct the reserves evaluation on the Corporation's oil and gas assets and to discuss the results of such evaluation with such independent evaluators and management. The Reserves Committee's responsibilities include reviewing managements' recommendations for the appointment or proposed changes of independent evaluators, reviewing the Corporation's procedures for providing information to the independent evaluators, meeting with management and the independent evaluator to review the reserves data and report, including any restrictions imposed by management or significant issues on which there was a disagreement with management and reviewing reserve additions and revisions which occur from one report to the next, recommending to the Board whether to approve the content of the independent evaluators' report, reviewing the Corporation's procedures for reporting on other information associated with oil and gas producing activities and generally reviewing all public disclosure of estimates of the Corporation's reserves. The Reserves Committee meets at least once annually or otherwise as circumstances warrant.

#### Assessments

The Compensation Committee is responsible for developing an annual assessment of the overall performance of the Board and its committees. The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. To date, the Compensation Committee and the Board have not put into place a formal process for assessing the effectiveness of the board as a whole, its committees or individual directors, but will consider implementing one in the future should circumstances warrant. Based on the Corporation's size, its stage of development and the number of individuals on the board of directors, the Compensation Committee and the Board consider a formal assessment process to be inappropriate at this time. The Compensation Committee and the Board plan to continue evaluating the Board's effectiveness on an ad hoc basis.

# Focused on North Africa

## Egypt:

1. Multiple world class hydrocarbon basins
2. Excellent business environment
3. Low operating costs

## Morocco:

1. Most competitive fiscal terms in the industry
2. High local gas prices
3. Dominant commercial position

**10,278** boe/d

Combined Egyptian daily average gross production for the twelve months to December 31, 2016



**16.9** mmboe

Asset reserves - North West Gemsa and Meseda (gross) at December 31, 2016



# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 24, 2017 is a review of results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), for the three and twelve months ended December 31, 2016. This MD&A should be read in conjunction with the accompanying Consolidated Financial Statements for the year ended December 31, 2016. 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 twelve months ended December 31, 2016 and 2015, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a twelve months to December 31, 2016 basis versus a twelve months to December 31, 2015 basis. The proforma sections commence after the completion of the sections of the MD&A based on the Consolidated Financial Statements for the period ended December 31, 2016 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](http://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, plant 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 was treated as the acquirer. This means that in the Consolidated Financial Statements to December 31, 2016, whilst the 2016 figures in the Consolidated Statement of Comprehensive (Loss)/Income relates to the combined entity, the 2015 comparatives contain twelve months of revenue and costs for Madison and only three months of revenue and costs for Sea Dragon.

### Post-balance sheet acquisition

As detailed in note 28 to the Consolidated Financial Statements for the year ended December 31, 2016, on January 27, 2017, the Company announced the acquisition of the Egyptian and Moroccan assets of Circle Oil plc. The analysis included in this MD&A does not cover these assets.

### Non-IFRS measures

The MD&A contains the term "netback" which is not a recognized measure under IFRS. The Company uses this measure to help evaluate its performance.

As mentioned above, 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 periods ended December 31, 2016 and 2015, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a twelve months to December 31, 2016 basis versus twelve months to December 31, 2015 basis for the combined entity (former Sea Dragon Energy Inc. and Madison Petrogas Ltd).

### 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.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### 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 Morocco, where the Company has interests in six concessions with short and long-term potential. The Company exited its operation in Cameroon on July 31, 2016 (see below). The Company's strategy is to develop the potential of its existing concessions while seeking growth opportunities within its North Africa 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 organic and inorganic 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 and Morocco.

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 and Morocco, combined with high impact exploration drilling in Egypt and Morocco. After analyzing its Bakassi West gas discovery in Cameroon, and due to challenging gas market economics, the Company decided to exit the concession and the country. In pursuing this strategy, SDX also intends to leverage its balance sheet, which has been strengthened as a result of its successful US\$11 million Placing (less expenses of c. US\$1 million) which closed during Q2 2016, its early mover advantage and its 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. Subsequent to year end, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc for US\$28.1 million after working capital adjustments and raised US\$40.0 million (before expenses) to fund this acquisition and to provide additional capital for investment into the enlarged group portfolio. Further detail on this transaction can be found in note 28 to the Consolidated Financial Statements .

The Company currently holds working interests ("W.I.") in three development/producing concessions and one exploration concession in Egypt, and one development/producing concession and one exploration concession in Morocco, being:

- Egypt (development/producing) - The NW Gemsa Concession ("NW Gemsa") - (10% W.I. up to January 27, 2017, 50% W.I. thereafter);
- Egypt (development/producing) - The Block-H Meseda production service agreement ("Meseda") - (50% W.I.);
- Egypt (development) - The South Ramadan Concession ("South Ramadan") - (12.75% W.I.);
- Egypt (exploration) - The South Disouq Concession ("South Disouq") - (55% W.I.);
- Morocco (development/producing) - The Sebou Concession ("Sebou") - (75% W.I.); and
- Morocco (exploration) - The Lalla Mimouna Concession ("Lalla Mimouna") - (75% W.I.);

The Company assigned its interest in the Bakassi West Concession ("Bakassi West") - (35% W.I.) to one of the partners in the concession effective July 31, 2016 and withdrew from the concession.

##### 2017 Work program

The Company's capital expenditure program for 2017 is expected to be approximately US\$15.5 million.

In North West Gemsa, the Company will invest c.US\$2.2 million for its share of a 12 well workover program focused on ESP installation and maintenance to increase production uptime.

In Meseda, up to c.US\$4.2 million will be contributed for the Company's share of the cost of drilling two exploration wells and two development wells (subject to government approval), and completing up to six pump replacements and upgrades in existing wells to increase production. Furthermore, to accommodate the expected increase in production in 2017, it is planned to expand the central processing facility to enable it to handle 20,000 barrels of fluid per day compared to its current operating range of 12,000-14,000 barrels of fluid per day.

In South Disouq, the Company estimates that it will incur up to cUS\$1.3 million of cost in relation to the drilling of the SD-1X exploration well, the majority of which relates to cost of drilling to the prospect's deeper oil target.

In Morocco, a drilling program of up to seven wells is targeted for 2017. The drilling cost of up to US\$7.8 million will cover three development and two appraisal wells in the Sebou concession and two exploration wells in the Lalla Mimouna concession.



## 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 IFRS 3 information extracted from the Financial Statements for the years ended December 31, 2016 and 2015.

\$000's unless stated	Prior quarter <sup>(1)</sup>	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
<b>Operational</b>					
Oil revenue	1,917	1,920	2,322	7,432	2,322
Royalties	(823)	(824)	(686)	(3,190)	(686)
Net oil revenue	1,094	1,096	1,636	4,242	1,636
Gas revenue	-	2,210	-	2,210	-
Royalties	-	(1,059)	-	(1,059)	-
Net gas revenue	-	1,151	-	1,151	-
NGL revenue	-	2,361	-	2,361	-
Royalties	-	(1,199)	-	(1,199)	-
Net NGL revenue	-	1,162	-	1,162	-
Production service fee revenue	1,835	1,945	1,806	6,359	9,736
<b>Total net revenue</b>	2,929	5,354	3,442	12,914	11,372
Operating costs	(1,241)	(1,752)	(2,483)	(5,282)	(4,973)
Netback (pre tax)	1,688	3,602	959	7,632	6,399
Oil sales (bbl/d)	510	468	652	534	164 <sup>(3)</sup>
Gas sales (boe/d) <sup>(2)</sup>	-	3,273	-	823	-
NGL sales (bbl/d) <sup>(2)</sup>	-	445	-	112	-
Production service fee (bbl/d)	704	679	704	662	760
<b>Total boe/d</b>	1,214	4,865	1,356	2,131	924
Oil sales volumes (bbls)	46,935	43,087	59,988	195,588	59,988
Gas sales volumes (boe)	-	301,137	-	301,137	-
NGL sales volumes (bbls)	-	40,897	-	40,897	-
Production service fee volumes (bbls)	64,792	62,504	64,751	242,146	277,407
<b>Total sales volumes (boe)</b>	111,727	447,625	124,739	779,768	337,395
Brent oil price (US\$/bbl)	\$45.78	\$49.23	\$43.56	\$41.70	\$52.30
West Gharib oil price (US\$/bbl)	\$34.86	\$34.86	\$34.35	\$32.43	\$42.81
Realized oil price (US\$/bbl)	\$40.84	\$44.56	\$38.71	\$38.00	\$38.71
Realized service fee (US\$/bbl)	\$28.32	\$31.12	\$27.89	\$26.26	\$35.10
Realized oil sales price and service fee	\$33.58	\$36.60	\$33.09	\$31.51	\$35.74
Realized gas price (US\$/mcf)	-	\$1.22	-	\$1.22	-
Realized NGL price (US\$/bbl)	-	\$57.73	-	\$57.73	-
Net realized price - all products (US\$/boe)	\$33.58	\$18.85	\$33.09	\$23.55	\$35.74
Total royalties (US\$/boe)	\$7.37	\$6.89	\$5.50	\$6.99	\$2.03
Operating costs (US\$/boe) <sup>(4)</sup>	\$11.11	\$3.91	\$19.91	\$6.77	\$14.74
Netback - (US\$/boe)	\$15.10	\$8.05	\$7.68	\$9.79	\$18.97
Capital expenditures	188	856	2,404	13,339	5,120

(1) Three months ended September 30, 2016.

(2) As discussed elsewhere in this MD&A, invoices for NGL and gas sales from NW Gemsa were issued during Q4 2016 but for the period February 2013 – December 2016. Actual gas and NGL sales generated for the three and twelve months ended December 31, 2016 were 130 boe/d and 17 boe/d for the three months ended December 31, 2016 135 boe/d and 18 boe/d for the twelve months ended December 31, 2016.

(3) Due to the IFRS 3 accounting treatment for the Sea Dragon and Madison business combination in 2015, the Consolidated Financial Statements for the year ended December 31, 2015 only included oil sales by Sea Dragon for period October 1, 2015 to December 31, 2015. If the oil sales for the full year had been included, oil sales would have been 759 bbl/d.

(4) Operating costs/boe of US\$3.91 and US\$6.77 for the three and twelve months ended December 31, 2016 reflect the inclusion of the gas and NGL volumes discussed at footnote (2) above. If these volumes and associated costs were excluded from these Operating costs/boe metric would increase to US\$13.75 and US\$11.38 per boe respectively.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2016

(prepared in US\$)

### Operational and financial highlights (continued)

#### Oil sales and production service fee revenues

\$000's	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
Oil sales revenue	1,917	1,920	2,322	7,432	2,322
Production fee revenues	1,835	1,945	1,806	6,359	9,736
<b>Oil sales and production fee revenues</b>	<b>3,752</b>	<b>3,865</b>	<b>4,128</b>	<b>13,791</b>	<b>12,058</b>

#### Oil sales revenue (relates to NW Gemsa and Shukheir Marine only)

Total oil sales volumes for the three months ended December 31, 2016 averaged 468 bbl/d compared to 652 bbl/d for the comparative period of the prior year.

Total sales volumes fell by 16,901 barrels, 28%, to 43,087 barrels in the three months ended December 31, 2016 compared to 59,988 in the comparative period of 2015. The North West Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline.

For the three months ended December 31, 2016 the Company received an average price per barrel of oil of US\$44.56 compared to the average Brent Oil price ("Brent") of US\$49.23; a discount of US\$4.67/9% per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a further deduction is reflected in the realized price as a result of marketing fees.

#### Variance from prior year

For the three months ended December 31, 2016 (compared to the three months ending December 31, 2015) the decrease in oil sales revenue of US\$0.4 million, 17%, to US\$1.9 million is due to an increase in realized sales price (US\$0.3 million) or 11%, more than offset by a decrease in sales volume (US\$0.7 million), or 28%.

\$000's	
Three months ended December 31, 2015	2,322
Price variance	253
Production variance	(655)
<b>Three months ended December 31, 2016</b>	<b>1,920</b>

#### Variance from prior quarter

For the three months ended December 31, 2016 (compared to the three months ending September 30, 2016) oil sales revenue was consistent with the increase in sales price of US\$0.2 million, 8%, being offset by a decrease in sales volume of US\$0.2 million, 8%.

\$000's	
Three months ended September 30, 2016	1,917
Price variance	161
Production variance	(158)
<b>Three months ended December 31, 2016</b>	<b>1,920</b>

### Production service fee revenue (relates to Meseda only)

Total production service fee volumes decreased by 2,247 barrels, 3%, to 62,504 barrels compared to the three months ended December 31, 2015. This was as a result of natural reservoir decline and resulted in a net reduction of 25 bbl/d in 2016 compared to 2015.

For the three months ended December 31, 2016 the Company received an average service fee per barrel of oil of US\$31.12 compared to the average West Gharib price of US\$34.86; a discount of US\$3.74, 11%, per barrel. The Company receives a discount to West Gharib due to the quality of the oil produced.

### Variance from prior year

For the three months ended December 31, 2016 (compared to the three months ending December 31, 2015) the increase in production service fee revenue of US\$0.1 million, 8%, to US\$1.9 million is due to an increase in realized sales price (US\$0.2 million) or 11%, partially offset by a decrease in sales volume (US\$0.1 million), or 3%.

\$000's

Three months ended December 31, 2015	1,806
Price variance	202
Production variance	(63)
<b>Three months ended December 31, 2016</b>	<b>1,945</b>

### Variance from prior quarter

For the three months ended December 31, 2016 (compared to the three months ending September 30, 2016) the increase in production service fee revenue of US\$0.1 million, 6%, to US\$1.9 million is due to an increase in realized sales price (US\$0.2 million) or 10%, partially offset by a decrease in sales volume (US\$0.1 million), or 4%.

\$000's

Three months ended September 30, 2016	1,835
Price variance	175
Production variance	(65)
<b>Three months ended December 31, 2016</b>	<b>1,945</b>

### Gas and Natural Gas Liquids ("NGLs") sales

The Company commenced sales of gas and Natural Gas Liquids ("NGLs") in February 2013 from the NW Gemsa concession, recognizing revenue from February 2013 to September 2013 of that year. Subsequent to this, the Company ceased recognizing revenue due a dispute with EGPC over entitlement volumes and pricing. This dispute has now been resolved such that the Company believes it appropriate to recognize revenues before State royalty deductions from October 1, 2013 to December 31, 2016, which equates to US\$2.2 million of gas sales and US\$2.4 million of NGLs. These sales were recognized in Q4 2016 and are reflected in the Consolidated Financial Statements.

### Direct Operating Costs

\$000's	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
NW Gemsa	377	1,014	377	2,170	377
Shukheir Marine	-	-	1,205	-	1,205
Block-H Meseda	863	737	897	3,086	3,387
Other	1	1	4	26	4
<b>Direct operating costs</b>	<b>1,241</b>	<b>1,752</b>	<b>2,483</b>	<b>5,282</b>	<b>4,973</b>

Direct operating costs for the three and twelve months ended December 31, 2016 were US\$1.8 million and US\$5.3 million respectively compared to US\$2.5 million and US\$5.0 million for the comparative periods of the prior year. Prior quarter direct operating costs are US\$0.6 million lower at US\$1.2 million compared to US\$1.8 million for the three months to December 31, 2016.

### NW Gemsa

NW Gemsa direct operating costs for the three months to December 31, 2016 for NW Gemsa were US\$0.6 million higher than the comparative three month period of the prior year and \$US0.6 million higher than the prior quarter. This was a result of increased allocation of operator overheads (US\$0.3 million) and operating costs associated with the recognition of NGL and gas sales revenues (US\$0.3 million).

### Block H-Meseda

Direct operating costs for the three months to December 31, 2016 for Block H-Meseda were US\$0.2 million lower than the comparative three month period of the prior year and \$US0.1 million lower than the prior quarter. These decreases were in line with lower production in the relevant periods.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Operational and financial highlights (continued)

##### Impairment charge

At the reporting date, management performed an impairment indicator assessment and concluded that due to a reduction in the proved and probable reserves for the NW Gemsa concession, as well as reserve auditor lower price forecasts for future years, the asset should be tested for impairment.

The impairment test was carried out in accordance with the accounting policy note stated in note 3. The recoverable amounts of the field has been determined based on a value-in-use calculation. This calculation requires 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 12.5%. The discount rate used reflects the specific risks relating to the underlying cash generating unit ("CGU").

Based on this calculation for NW Gemsa an impairment charge of US\$4.3 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\$54.40	US\$58.25	US\$57.85	US\$50.05	US\$58.61	US\$59.17	US\$59.85

If the discount factor applied to the impairment test were to increase by 2.5% above the current factor of 12.5%, the impairment of the NW Gemsa field would increase by US\$0.2 million. If the discount factor applied to the impairment test were to decrease by 2.5% below the current factor of 12.5%, the impairment of the NW Gemsa field would decrease by US\$0.1 million.

A 10% reduction in the Brent oil sales price would increase the impairment by US\$1.1 million.

A 15% reduction in the Brent oil sales price would increase the impairment by US\$1.6 million.

In the year to December 31, 2015, the NW Gemsa field was impaired by US\$6.8 million, due to falling crude oil prices and a reduction in the proved and probable reserves.

##### Current Taxes

\$000's	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
Current taxes	363	643	346	1,499	1,168

Current taxes for the three and twelve months ended December 31, 2016 were US\$0.6 million and US\$1.5 million respectively compared to US\$0.3 million and US\$1.2 million for the comparative period of the prior year.

Current taxes increased by US\$0.3 million for the three months ended December 31, 2016 when compared to 2015 due the recognition of NGL and gas sales (discussed above) in the Consolidated Financial Statements during 2016.

##### Capital expenditures

The following table shows the capital expenditure for the Company in accordance with IFRS3 –Business Combinations and this agrees to the notes 10 and 11 of the Consolidated Financial Statements for the period ended December 31, 2016.

\$000's	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2016	2015	2016	2015
Property, plant and equipment expenditures ("PP&E")	136	591	(28)	1,705	1,375
Exploration and evaluation expenditures ("E&E")	52	212	2,419	11,566	3,728
Office furniture and fixtures	-	53	13	68	17
<b>Capital expenditures</b>	188	<b>856</b>	<b>2,404</b>	<b>13,339</b>	<b>5,120</b>

During the twelve months ended December 31, 2016, the Company incurred capital expenditures of US\$1.8 million on PP&E and office furniture and fixtures, and US\$11.6 million on E&E.

The PP&E additions of US\$1.8 million predominantly related to the NW Gemsa concession and were for the drilling of Al Amir SE-23 and Al Amir SE-24, and the well workover programme.

The E&E additions of US\$11.6 million consists of US\$5.6 million primarily in relation to the drilling of the Manatee 1-X exploration well in the Bakassi West block in Cameroon ("Bakassi West") and US\$6.0 million in relation to the 3D seismic programme in the South Disouq concession in Egypt.

### Property Plant and Equipment

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

\$000's	December 31 2016	December 31 2015
Oil and gas properties, at cost	32,368	44,775
Accumulated depletion, depreciation, amortization and impairment	(19,862)	(26,446)
Net Book Value	12,506	18,329
Furniture and fixtures, at cost	188	567
Accumulated depletion, depreciation and amortisation	(89)	(495)
Net Book Value	99	72
<b>Property, plant and equipment, end of period</b>	<b>12,605</b>	<b>18,401</b>

At December 31, 2016 for the purposes of the depletion calculation, US\$3.3 million (December 31, 2015 – US\$3.4 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. Please see note 11 to the Consolidated Financial Statements for further details:

\$000's	December 31 2016	December 31 2015
Exploration and evaluation assets, beginning of period	23,473	16,460
Additions	11,566	3,728
Acquisitions (business combination)	-	3,267
Transfer to exploration expense	(24,416)	18
<b>Exploration and evaluation assets, end of period</b>	<b>10,623</b>	<b>23,473</b>

On June 16, 2016 the Company issued a press release announcing its intention to withdraw from the Bakassi West, Cameroon concession (which became effective July 31, 2016).

As the Bakassi West drilling operations had been completed by June 30, 2016, the Company made a full provision against the capitalised exploration cost of US\$24.4 million and reflected the relevant impairment in the Statement of Comprehensive Income Statement for the period to June 30, 2016. There has been no material change to this position as at December 31, 2016.

### 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 and the AIM market of the London Stock Exchange under the symbol SDX.

Given that as part of the business combination that occurred in October 2015 Sea Dragon Inc performed a 35:1 share consolidation and that Madison was previously a privately held company, 12 month comparative figures are not included in the below table.

Trading statistics	Prior quarter	Three months ended December 31 2016	Three months ended December 31 2015	Twelve months ended December 31 2016
High (CDN)	\$0.47	\$0.55	\$1.05	\$0.70
Low (CDN)	\$0.33	\$0.34	\$0.43	\$0.26
Average volume	29,642	64,108	29,669	38,599

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Liquidity and capital resources (continued)

##### Share capital (continued)

The following table summarizes the outstanding common shares, options and warrants as at March 24, 2017, December 31, 2016 and December 31, 2015 for SDX Energy Inc.

Outstanding as at	March 24 2017	December 31 2016	December 31 2015
Common shares	186,900,253	79,843,902	37,642,067
Warrants	-	-	610,743
Options	2,445,000	2,445,000	2,650,000

The increase in Common shares as at December 31, 2016 relates to the unconditional new Common shares issued on May 20, 2016 on completion of SDX's Placing and dual listing on AIM plus a further 3,910,000 conditional Common shares issued to an investor on July 25, 2016 upon receipt of TSX approval as an Insider. The increase in Common shares as at March 24, 2017 relates to the unconditional Common shares issued on January 27, 2017 on completion of a further placing of shares to fund the acquisition of Circle Oil plc's Egyptian and Moroccan assets, see further discussion elsewhere in this MD&A and within note 28 to the Consolidated Financial Statements.

The 610,743 warrants expired on July 27, 2016.

The following table summarizes the outstanding options as at December 31, 2016:

Exercise price range	Outstanding options		Vested options	
	Number of options	Remaining contractual life	Number of options	Remaining contractual life
CAD \$0.36 - \$0.63	2,445,000	3 - 5 years	1,566,651	3 - 5 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.

During the period it was determined that one of the inputs to the Black-Scholes option pricing model, specifically volatility of returns, required to be updated following the business combination between Sea Dragon and Madison. As a result, a non-cash stock based compensation credit of US\$0.1m has been recognized for the twelve months ended December 31, 2016. For the twelve months ended December 31, 2015 the Company recorded a non-cash stock based compensation charge of US\$0.8 million.

#### Inventory

As at December 31, 2016 the Company undertook a comprehensive stockcounting exercise over all spare parts and consumables inventory. Given the forthcoming exploration drilling operations on the South Disouq concession, and in order to identify an optimal use for the Company's inventory, a quantity of on hand drill pipe and casing was inspected and certified for use in the SD1-X well. This inventory was from legacy exploration operations and previously was carried at nil value as it was not planned to be used and thus was uncertified, and due to the limited resale market in Egypt was therefore fully provided-for. The reversal of the provision previously recognized against this inventory has resulted in a US\$0.5 million credit to the Consolidated Statement of Comprehensive Income.

#### Capital Resources

As at December 31, 2016 the Company had working capital of approximately US\$11.8 million. The Company expects to fund its 2017 capital program through funds generated from operations and cash on hand.

As at December 31, 2016, the Company had cash and cash equivalents of US\$4.7 million compared to US\$8.2 million as at December 31, 2015. As at February 28, 2017, and post the Company's US\$40 million (before costs) Equity Placing and purchase of the Egyptian and Moroccan businesses of Circle Oil plc for US\$28.1 million, the Company's cash and cash equivalents were US\$18.3 million.

During the twelve months the Company had net cash outflows of US\$3.5 million (including the effects of foreign exchange on cash and cash equivalents). For further detail, please see sources and uses table below.

As at December 31, 2016, the Company had US\$9.5 million in trade and other receivables compared to US\$6.7 million as at December 31, 2015. Approximately US\$7.7 million will be due from a government of Egypt controlled corporation (EGPC) for oil sales, gas and NGL sales and production service fees. US\$5.7 million of this is expected to be received in the normal course of operations and the remaining US\$2.0 million is withheld as a rolling production guarantee towards the work program for the South Disouq concession is also expected to be received in the coming months. The Company also had a receivable of US\$0.6 million related to joint venture partner current accounts for the South Disouq concession, with the remaining US\$1.2m related to sundry debtors and prepayments.

Subsequent to December 31, 2016, the Company collected US\$2.5 million of trade receivables from those that were outstanding at December 31, 2016; US\$0.1 million for NW Gemsa representing October 2016 crude oil sales invoices, US\$1.3 million for Meseda representing September, October and November 2016 production service fees and US\$1.4 million of the rolling South Disouq production guarantee referred to above.

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 2016	December 31 2015
<b>Current assets</b>		
Cash and cash equivalents	4,725	8,170
Trade and other receivables	9,463	6,678
Inventory	1,698	1,188
<b>Current assets</b>	<b>15,886</b>	<b>16,036</b>
<b>Current liabilities</b>		
Trade and other payables	3,674	3,556
Current income taxes	389	928
<b>Current liabilities</b>	<b>4,063</b>	<b>4,484</b>
<b>Working capital</b>	<b>11,823</b>	<b>11,552</b>

The increase in working capital of US\$0.3 million since December 31, 2015 for SDX Energy Inc. is as a result of (i) net cash reduction of US\$3.4 million, (ii) an increase in trade payables of US\$0.1 million, offset by (iii) an increase in inventory of US\$0.5 million, (iv) an increase in trade receivables of US\$2.8 million and (v) a reduction in current income tax liability of US\$0.5 million.

The following table outlines the Company's sources and uses of cash for the twelve months ended December 31, 2016 and 2015:

\$000's	Twelve months ended December 31	
	2016	2015
<b>Sources</b>		
Operating cash flow before working capital movements	2,264	1,647
Cash from disposal of office assets	-	8
Private placement on London Stock Exchange AIM	10,127	-
Dividends received	825	917
Sea Dragon Energy Inc. net working capital as a result of the business combination effective October 1, 2015	-	3,911
	<b>13,216</b>	<b>6,483</b>
<b>Uses</b>		
Property, plant and equipment expenditures	(161)	(1,392)
Exploration and evaluation expenditures	(11,729)	(3,728)
Repayment of debentures	-	(2,052)
Repayment of bank facility	-	(1,650)
Finance costs paid	(96)	-
Income taxes paid	(766)	(4,678)
Effect of foreign exchange on cash and cash equivalents	(469)	(565)
Changes in non-cash working capital	(3,440)	(2,183)
	<b>(16,661)</b>	<b>(16,248)</b>
Decrease in cash	<b>(3,445)</b>	<b>(9,765)</b>
Cash and cash equivalents at beginning of period	<b>8,170</b>	<b>17,935</b>
Cash and cash equivalents at end of period	<b>4,725</b>	<b>8,170</b>

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Liquidity and capital resources (continued)

##### Capital Resources (continued)

The Company's operating cash flow before working capital movements for the twelve months ended December 31, 2016 compared to the prior period ended December 31, 2015 has increased by US\$0.6 million primarily due to:

- (i) an increase of US\$1.5 million in net revenues as a result of the inclusion of a full year of NW Gemsa net revenues (US\$2.6 million) in 2016, and the recognition of net gas and NGL revenues (US\$2.3 million) in Q4 2016, partly offset by lower production and pricing at Meseda (US\$3.4 million);
- (ii) an increase in operating costs of US\$0.3 million as a result of the inclusion of the operating expenses incurred by the NW Gemsa concession during the twelve months to December 31, 2016, partly offset by production declines;
- (iii) a net decrease of US\$1.1 million in general and administrative costs in 2016 as a result of the absence in 2016 of Madison severance and transaction-related costs (US\$1.5 million) partly offset by the increased costs of the combined entity post-business combination (US\$0.4 million);
- (iv) an increase in expensed cash exploration and evaluation expenditure of US\$0.4 million;
- (v) lower finance costs of US\$0.1 million due to lower interest charges; and
- (vi) the effect of foreign exchange crystallisation giving a US\$0.3 million realized loss in 2016 versus a US\$0.7 million realized gain in 2015.

##### 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, 2016 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\$ and Sterling (GBP) 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 <sup>(1)</sup>	US\$	EGP US\$ Equivalent	GBP	Other
<b>As at December 31, 2016</b>					
Cash and cash equivalents	4,725	1,847	2,104	694	80
Trade and other receivables	9,463	8,544	16	838	65
Trade and other payables	(3,674)	(1,757)	(1,377)	(525)	(15)
Current income taxes	(389)	-	(389)	-	-
<b>Balance sheet exposure</b>	<b>10,125</b>	<b>8,634</b>	<b>354</b>	<b>1,007</b>	<b>130</b>

(1) denotes Financial Statements



The average exchange rates during the three months ended December 31, 2016 and 2015 were 1 US\$ equals:

Average: October 1, 2016 to December 31, 2016			Average: October 1, 2015 to December 31, 2015		
	USD/EGP	USD/GBP		USD/EGP	USD/GBP
Period average	14.3634	0.8044	Period average	7.8530	0.6590

The average exchange rates during the twelve months ended December 31, 2016 and 2015 were 1 US\$ equals:

Average: January 1, 2016 to December 31, 2016			Average: January 1, 2015 to December 31, 2015		
	USD/EGP	USD/GBP		USD/EGP	USD/GBP
Period average	10.0211	0.7405	Period average	7.6849	0.6542

The exchange rates as at December 31, 2016 and 2015 were 1 US\$ equals:

Period end: December 31, 2016			Period end: December 31, 2015		
	USD/EGP	USD/GBP		USD/EGP	USD/GBP
December 31, 2016	18.1274	0.8113	December 31, 2015	7.8041	0.6755

#### Trade and other payables

The foreign currency risk from a trade and other payables perspective arises due to the fact that the Company's operations are conducted in Egypt and Morocco (from January 27, 2017 onwards) and its corporate offices are in London and Canada with listing and regulatory costs in both jurisdictions.

As at December 31, 2016 and 2015 the Company's trade and other payables are as follows:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
<b>Current</b>		
Trade payables	663	198
Accruals	684	1,284
Other payables	2,327	2,074
<b>Total trade and other payables</b>	<b>3,674</b>	<b>3,556</b>

Trade payables include US\$0.3 million of NGL and gas transportation and treatment costs associated with the sales of these products recognized during Q4 2016. There was no corresponding balance as at December 31, 2015.

Accruals primarily comprise general and administrative costs related to legal, audit, tax and reserve reporting fees. The main reduction from the position as at December 31, 2015 is the absence of a US\$0.5 million restructuring accrual which existed at December 31, 2015 and which since been settled.

Other payables of US\$2.3 million comprise an estimated liability of US\$0.5 million related to the relinquishment of the Shukheir Marine concession (2015: US\$1.1 million), partner current accounts of US\$1.2 million for NW Gemsa (2015: US\$0.7 million), US\$0.5 million Block-H Meseda (2015: US\$nil million) concessions, UK payroll taxes and deferred payroll of US\$0.1 million (2015: 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:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Cash and cash equivalents	4,725	8,170
Trade and other receivables	9,463	6,678
<b>Total</b>	<b>14,188</b>	<b>14,848</b>

#### Trade and other receivables

All of the Company's operations as at December 31, 2016 were conducted in Egypt. 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.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Liquidity and capital resources (continued)

##### Financial instruments (continued)

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

\$000's	Carrying amount	
	December 31 2016	December 31 2015
<b>Current</b>		
Government of Egypt controlled corporations	7,745	5,018
Joint venture partners	578	862
Other	1,140	798
<b>Total trade and other receivables</b>	<b>9,463</b>	<b>6,678</b>

US\$7.7 million of current receivables related to oil, gas and NGL sales and production service fees which are due from EGPC (December 31, 2015: US\$5.0 million), a Government of Egypt controlled corporation. Receivables in respect of oil sales and service fees are normally collected in two to three months following production. The Company expects to collect outstanding receivables of US\$3.4 million for NW Gemsa (2015: US\$0.8 million), which includes the US\$2.3 million gas and NGL revenue recognized in Q4 2016 (with no comparable balance at December 31, 2015), and US\$2.3 million for Block – H Meseda (2015: US\$1.2 million), in the normal course of operations. The US\$2.0 million of Shukheir Marine oil invoices (2015: US\$3.0 million), which are pledged against the Company's obligations under its South Disouq work program, are expected to be collected during Q2 2017 as the South Disouq work programme is now complete.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. Joint venture partner receivables of US\$0.6 million (2015 - US\$0.9 million) relate to the South Disouq concession only (2015: South Disouq US\$0.8 million and Block – H Meseda US\$0.1 million). The other receivables of US\$1.1 million consist of US\$0.7 million related to prepayments, US\$0.3 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US\$0.1 million for other items.

As at December 31, 2016 and December 31, 2015, the Company's trade and other receivables are aged as follows:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
<b>Current</b>		
Current (less than 90 days)	6,863	3,364
Past due (more than 90 days)	2,600	3,314
<b>Total trade and other receivables</b>	<b>9,463</b>	<b>6,678</b>

The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have decreased by US\$0.7 million when compared to December 31, 2015. This decrease is primarily due to the collection of US\$1.0 million of the Shukheir Marine receivables as explained above.

Subsequent to December 31, 2016, the Company collected US\$2.5 million of trade receivables from those that were outstanding at December 31, 2016; US\$0.1 million for NW Gemsa representing October 2016 crude oil sales invoices, US\$1.3 million for Meseda representing September, October and November 2016 production service fees and US\$1.4 million of the rolling South Disouq production guarantee referred to above.

#### 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 in established banks in either countries of operation or the UK, the majority of which have A or AA ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

#### Capital management

The Company defines and computes its capital as follows:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Equity	37,264	55,246
Working capital <sup>(1)</sup>	(11,823)	(11,552)
<b>Total capital</b>	<b>25,441</b>	<b>43,694</b>

(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.

## 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, 2016.

### Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective January 2016.

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, 2016.

### New standards and interpretations

New and amended standards and interpretations need to be adopted in the first financial statements issued after their effective date (or date of early adoption). Amendments have been made to the following standards effective January 1, 2016. These amendments have not had a material impact on the Consolidated Financial Statements.

- IFRS 11 – Joint Arrangements
- IAS 16 – Property, Plant and Equipment
- IAS 38 – Intangible Assets
- IAS 27 – Separate Financial Statements
- IFRS 10 – Consolidated Financial Statements
- IAS 1 – Presentation of Financial Statements

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 does not expect this standard to have a significant impact 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 interim and 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 does not expect this standard to have a significant impact on its 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 interim and annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15 is applied. The Company does not expect this standard to have a significant impact on its Consolidated Financial Statements.

### Future changes in accounting policies

There were no updates to future changes in accounting policies in 2016. 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, 2016.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2016

(prepared in US\$)

### Business risk assesment

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 Morocco 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 flows 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 ability of regional state-owned monopolies to control 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 therefrom 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. 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 Moroccan dirham ("MAD"), British pound ("GBP"), Egyptian pound ("EGP") 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 Morocco. 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.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Business risk assesment (continued)

##### 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 and Morocco. 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. There are certain restrictions on foreign entities repatriating earnings from Morocco.

##### 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 and gas 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 Morocco, 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 EGP, MAD 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 and Morocco. The Company faces intense competition from both major and other independent oil and gas companies in seeking oil and gas exploration licences and production licences in Egypt and Morocco; 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, 2016. 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, 2016.

### Proforma financial information

As mentioned in the introduction to this MD&A, in order to provide the reader with a better understanding of the underlying operational performance of the combined SDX business for the twelve months to December 31, 2016, the following pages will discuss the actual performance of the combined business for the twelve months ended December 31, 2016 comparing it to a proforma combined business performance for the twelve months ended December 31, 2015. The table below sets out how the proforma comprehensive income for the combined business has been created for the twelve months ended December 31, 2015. These figures do not include the acquisition of the Egyptian and Moroccan assets of Circle Oil plc that occurred on January 27, 2017.

### Income Statement Reconciliation

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

	Twelve months ended December 31		
	2015	2015	2015
	SDX Energy Inc as per Financial Statements	Sea Dragon Energy Inc (pre-combination)	Full twelve months of combined SDX Group - Pro Forma unaudited
\$000's			
<b>Financial</b>			
Oil revenue	2,322	10,972	13,294
Royalties	(686)	(4,781)	(5,467)
Net oil revenue	1,636	6,191	7,827
Production service fee revenue	9,736	-	9,736
Total net revenue	11,372	6,191	17,563
Operating costs	(4,973)	(1,066)	(6,039)
Netback (pre tax)	6,399	5,125	11,524
Exploration and evaluation expense	(73)	(557)	(630)
Depletion, depreciation and amortization	(2,057)	(1,718)	(3,775)
Impairment expense	(6,842)	-	(6,842)
Impairment of materials inventory	-	-	-
Stock based compensation	(761)	(140)	(901)
Share of profit from joint venture	1,024	-	1,024
Loss on disposal of office assets	(3)	-	(3)
Gain on disposal of materials inventory	-	235	235
Loss on disposal of Kom Ombo concession	-	-	-
General and administrative expenses	(4,770)	(3,132)	(7,902)
Operating (loss)/income	(7,083)	(187)	(7,270)
Net finance income/(expense)	(96)	(605)	(701)
Gain on acquisition	18,289	-	18,289
Current income tax expense	(1,168)	(1,250)	(2,418)
Deferred income tax expense	105	-	105
Net (loss)/income	10,047	(2,042)	8,005
Other comprehensive loss			
Foreign exchange	(647)	-	(647)
<b>Total comprehensive (loss)/income for the period</b>	<b>9,400</b>	<b>(2,042)</b>	<b>7,358</b>

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2016

(prepared in US\$)

### Income Statement Reconciliation (continued)

	Twelve months ended December 31		
	2015	2015	2015
	SDX Energy Inc as per Financial Statements <sup>(1)</sup>	Sea Dragon Energy Inc (pre-combination)	Full twelve months of combined SDX Group - Pro Forma unaudited
per unit amounts			
<b>Operational</b>			
Oil sales (bbl/d)	652	794	759
Production service fee (bbl/d)	760	-	760
Total boe/d	1,412	794	1,519
Oil sales volumes (bbls)	59,988	216,868	276,856
Production service fee volumes (bbls)	277,407	-	277,407
Total sales volumes (boe)	337,395	216,868	554,263
Brent Oil price (US\$/bbl)	\$52.30	\$55.24	\$52.30
West Gharib oil price (US\$/bbl)	\$42.81	-	\$42.81
Realized oil price (US\$/bbl)	\$38.71	\$50.59	\$48.02
Realized service fee (US\$/bbl)	\$35.10	-	\$35.10
Net realized price (US\$/boe)	\$35.74	\$50.59	\$41.55
Total royalties (US\$/boe)	\$2.03	\$22.04	\$9.86
Operating costs (US\$/boe)	\$14.74	\$4.91	\$10.90
Netback - (US\$/boe)	\$18.97	\$23.64	\$20.80
Capital expenditures	5,120	1,239	6,359

(1) SDX Energy Inc contains financial information from the Consolidated Statement of Comprehensive Income; see Financial Statements.



## Proforma financial information

As per the Consolidated Financial Statements for the twelve months ended December 31, 2016, the Company recorded a total comprehensive loss of US\$(28.0) million for the twelve months ended December 31, 2016, compared to a total comprehensive income of US\$9.4 million for the twelve months ended December 31, 2015.

The following table, however, shows the Total Comprehensive (Loss)/Income for the twelve months ended December 31, 2016 and 2015 on a proforma basis i.e. as if the business combination had been in effect for the 2015 comparative period. The constituent parts for the December 31, 2015 components of this table are shown in more detail on pages 37 to 40 of this MD&A.

### Consolidated Statement of Comprehensive (Loss)/Income

	Twelve months ended December 31	
	2016	2015
Revenue, net of royalties	12,914	17,563
Operating costs	(5,282)	(6,039)
Netback (pre tax)	7,632	11,524
Exploration and evaluation expense	(24,833)	(630)
Depletion, depreciation and amortization	(3,266)	(3,775)
Impairment expense	(4,303)	(6,842)
Gain on reversal of inventory provision/disposal of materials inventory	479	235
Stock based compensation	47	(901)
Share of profit from joint venture	1,222	1,024
Loss on disposal of office assets	-	(3)
General and administrative expenses	(3,679)	(7,902)
Operating loss	(26,701)	(7,270)
Net finance income/(expense)	4	(701)
Gain on acquisition	-	18,289
(Loss)/income before income taxes	(26,697)	10,318
Current income tax expense	(1,499)	(2,418)
Deferred income tax expense	(4)	105
Net (loss)/income	(28,200)	8,005
Other comprehensive income/(loss)		
Foreign exchange	237	(647)
<b>Total comprehensive (loss)/income for the period</b>	<b>(27,963)</b>	<b>7,358</b>

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Proforma financial information (continued)

##### Operational and financial highlights

\$000's unless stated	Twelve months ended December 31	
	2016	2015
<b>Operational</b>		
Oil revenue	7,432	13,294
Royalties	(3,190)	(5,467)
Net oil revenue	4,242	7,827
Gas revenue	2,210	-
Royalties	(1,059)	-
Net gas revenue	1,151	-
NGL revenue	2,361	-
Royalties	(1,199)	-
Net NGL revenue	1,162	-
Production service fee revenue	6,359	9,736
<b>Total net revenue</b>	<b>12,914</b>	<b>17,563</b>
Operating costs	(5,282)	(6,039)
<b>Netback (pre tax)</b>	<b>7,632</b>	<b>11,524</b>
Oil sales (bbl/d)	534	759
Gas sales (boe/d)	823	-
NGL Sales (bbl/d)	112	-
Production service fee (bbl/d)	662	760
<b>Total boe/d</b>	<b>2,131</b>	<b>1,519</b>
Oil sales volumes (bbls)	195,588	276,856
Gas sales volumes (boe)	301,137	-
NGL sales volumes (bbls)	40,897	-
Production service fee volumes (bbls)	242,146	277,407
<b>Total sales volumes (boe)</b>	<b>779,768</b>	<b>554,263</b>
Brent oil price (US\$/bbl)	\$41.70	\$52.30
West Gharib oil price (US\$/bbl)	\$32.43	\$42.81
Realized oil price (US\$/bbl)	\$38.00	\$48.02
Realized service fee (US\$/bbl)	\$26.26	\$35.10
Realized oil sales price and service fees	\$31.51	\$41.55
Realized gas price (US\$/mcf)	\$1.22	-
Realized NGL price (US\$/bbl)	\$57.73	-
Net realized price - all products (US\$/boe)	\$23.55	\$41.55
Total royalties (US\$/boe)	\$6.99	\$9.86
Operating costs (US\$/boe)	\$6.77	\$10.90
Netback - (US\$/boe)	\$9.79	\$20.79
Capital expenditures	13,339	6,359

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

Total oil sales volumes for the twelve months ended December 31, 2016 averaged 534 bbl/d (based on 366 days) compared to 759 bbl/d (based on 365 days) for the comparative period of the prior year.

Total sales volumes fell by 81,268 barrels, 29%, to 195,588 barrels in the twelve months ended December 31, 2016 compared to 276,856 in the comparative period of 2015. The North West Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline, which has been the main driver of the reduction in volumes. In addition, 10,093 barrels of this decline relates to the relinquishment of the Shukheir Marine concession, effective January 31, 2015 which contributed a net reduction of 28 bbl/d.

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

	Twelve months ended December 31	
	2016	2015
N W Gemsa	195,588	266,763
Shukheir Marine	-	10,093
<b>Total crude oil sales</b>	<b>195,588</b>	<b>276,856</b>

### Production Service Fee volumes (relates to Meseda only)

The Company began oil production from the Meseda area of Block H in late 2011, and records service fee revenue relating to the oil production that is delivered to the State Oil Company ("GPC"). 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. The service fee revenue is based on the current market price of West Gharib crude oil, adjusted for a quality differential.

Total production service fee volumes decreased by 35,261 barrels, 13%, to 242,146 barrels compared to the twelve months ended December 31, 2015. This was as a result of natural reservoir declines. This contributed to a net reduction of 98 bbl/d in 2016 compared to 2015.

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

	Twelve months ended December 31	
	2016	2015
Meseda - Block H	242,146	277,407

### 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 twelve months ended December 31, 2016, oil sales made by the Company achieved an average price per barrel of oil of US\$38.00 compared to the average Brent Oil price ("Brent") of US\$41.70; a discount of US\$3.70, 9% per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a further deduction is reflected in the realized price as a result of marketing fees.

For the twelve months ended December 31, 2016 the Company received an average service fee per barrel of oil of US\$26.26 compared to the average West Gharib price of US\$32.43; a discount of US\$6.17, 19%, per barrel. The Company receives a discount to West Gharib due to the quality of the oil produced.

During the twelve months ended December 31, 2016 the Brent price ranged from a low of US\$26.01 per barrel on January 20, 2016 to a high of US\$54.96 per barrel on December 30, 2016. The current low oil price environment is due to over-supply in the market particularly from OPEC countries and US shale producers, the lifting of trade sanctions on Iran, and lower demand as a result of slower 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 NGLs in February 2013 from the NW Gemsa concession, however recognition of this revenue was delayed pending resolution of a dispute with EGPC over entitlement volumes and pricing. This was resolved such that US\$1.2 million of gas sales and US\$1.3 million of NGL sales were recognized in Q4 2016, net of royalties, covering the period February 2013 – December 2016.

### Crude Oil Sales

	Twelve months ended December 31	
	2016	2015
\$000's except per unit amounts		
Crude oil sales	7,432	13,294
Per bbl	38.00	48.02

Crude oil sales for the twelve months ended December 31, 2016 were US\$7.4 million compared to US\$13.3 million for the twelve months ended December 31, 2015.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

## Proforma financial information (continued)

### Crude Oil Sales (continued)

The crude oil sales per concession were:

\$000's	Twelve months ended December 31	
	2016	2015
N W Gemsa	7,432	12,879
Shukheir Marine	-	415
<b>Total crude oil sales</b>	<b>7,432</b>	<b>13,294</b>

### Variance from prior year

For the twelve months ended December 31, 2016 (compared to the twelve months ending December 31, 2015) the decrease in revenue of US\$5.9 million, 44%, to US\$7.4 million is due to a decrease in realized sales price (US\$2.0 million) or 15%, and a decrease in sales volume (US\$3.9 million), or 29%.

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 decline of the NW Gemsa concession after reaching plateau production during Q4, 2014.

\$000's	
Twelve months ended December 31, 2015	13,294
Price variance	(1,960)
Production variance	(3,902)
<b>Twelve months ended December 31, 2016</b>	<b>7,432</b>

### Production Service Fees

\$000's except per unit amounts	Twelve months ended December 31	
	2016	2015
Production service fees	6,359	9,736
Per bbl	26.26	35.10

Production services fees from Meseda for the twelve months ended December 31, 2016 were US\$6.4 million compared to US\$9.7 million for the twelve months ended December 31, 2015.

### Variance from prior year

For the twelve months ended December 31, 2016 (compared to the twelve months year ending December 31, 2015) the decrease in production service fees of US\$3.3 million, 34%, to US\$6.4 million in 2016 is due to a decrease in realized price of US\$2.1 million, 22%, and a decrease in volumes of US\$1.2 million, 13%.

\$000's	
Twelve months ended December 31, 2015	9,736
Price variance	(2,140)
Production variance	(1,237)
<b>Twelve months ended December 31, 2016</b>	<b>6,359</b>

### Gas and Natural Gas Liquids ("NGL") sales

The net gas and NGL sales recognized during the period ended December 31, 2016 were US\$1.2 million and US\$1.2 million respectively, net of royalties, and representing all gas and NGL sales made since February 2013 (approximately 1,430 days). Recognition of this revenue was delayed pending resolution of the invoicing dispute with EGPC, discussed above, which was completed in Q4 2016.

### Royalties

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 for crude oil sales per concession are as follows:

\$000's	Twelve months ended December 31	
	2016	2015
N W Gemsa	3,190	5,291
Shukheir Marine	-	176
<b>Total royalties by concession</b>	<b>3,190</b>	<b>5,467</b>

Royalties for crude oil sales per boe by concession are as follows:

per unit amounts	Twelve months ended December 31	
	2016	2015
N W Gemsa	16.31	19.83
Shukheir Marine	-	17.45
<b>Total royalties (US\$/boe) by concession</b>	<b>16.31</b>	<b>19.75</b>

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 (as at December 31, 2016 and 2015):

Concession	SDX Energy WI <sup>(1)</sup>	Cost oil to contractors <sup>(2)</sup>	Capital cost recovered <sup>(2)</sup>	Operating cost recovered <sup>(2)</sup>	Excess oil to contractor <sup>(3)</sup>	Profit oil to contractor <sup>(4)</sup>
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%

(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.

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

#### Direct operating costs

\$000's except per unit amounts	Twelve months ended December 31	
	2016	2015
Direct operating costs	5,282	6,039
Per boe	6.77	10.90

Direct operating costs for the twelve months ended December 31, 2016 were US\$5.3 million (US\$6.77 per bbl) compared to US\$6.0 million (US\$10.90 per bbl) in the prior year. Excluding the impact of the gas and NGL revenues recognized in Q4 2016, the direct operating costs for the twelve months ended December 31, 2016 were \$11.38/boe.

The direct operating costs per concession were:

\$000's	Twelve months ended December 31	
	2016	2015
N W Gemsa	2,170	1,922
Shukheir Marine	-	669
Meseda - Block H	3,086	3,387
Other	26	61
<b>Direct operating costs by concession</b>	<b>5,282</b>	<b>6,039</b>

The direct operating costs per boe per concession were:

per unit amounts	Twelve months ended December 31	
	2016	2015
N W Gemsa	4.04	7.20
Shukheir Marine	-	66.31
Meseda - Block H	12.75	12.21
<b>Total direct operating costs (US\$/boe) by concession</b>	<b>6.77</b>	<b>10.90</b>

At NW Gemsa, excluding NGL and gas volumes invoiced in Q4 2016, as a result of the concession undergoing a workover programme in the twelve months to December 31, 2016 and, as a result of the operator of NW Gemsa charging the partners for some backdated overheads, the direct operating costs for this concession, and per boe, were higher (\$9.56/boe) in the twelve months to December 31, 2016 compared to the twelve months to December 31, 2015. However, inclusion of the invoiced NGL and gas volumes brings operating costs per boe below 2015 levels.

At Meseda, lower production levels have been partially offset by the costs of the workover programme, resulting in a 9% reduction in direct operating costs, but a 4% increase in direct operation costs per boe.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

#### Proforma financial information (continued)

##### Current taxes

\$000's	Twelve months ended December 31	
	2016	2015
Current taxes	1,499	2,418

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 in income tax expense thereby having a net neutral impact on Net Income.

The Company 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 current taxes per concession were:

\$000's	Twelve months ended December 31	
	2016	2015
N W Gemsa	1,272	1,159
Shukheir Marine	-	30
Meseda - Block H	227	1,168
Other	-	61
<b>Total current taxes by concession</b>	<b>1,499</b>	<b>2,418</b>

##### General and administrative costs

\$000's	Twelve months ended December 31	
	2016	2015
Wages and employee costs	2,532	4,838
Consultants - inc. PR/IR	479	594
Legal fees	237	246
Audit, tax and accounting services	246	790
Public company fees	332	383
Travel	166	407
Office expenses	668	846
IT expenses	322	136
Transaction costs	-	496
Service recharges	(1,303)	(834)
<b>Total - net G&amp;A</b>	<b>3,679</b>	<b>7,902</b>

General and administrative ("G&A") costs for the twelve months ended December 31, 2016 were US\$3.7 million compared to US\$7.9 million for the comparative period of the prior year; a decrease of US\$4.2 million, or 53%.

G&A costs in the above table represent a full twelve months ended December 31, 2015 for the combined Sea Dragon Energy Inc. and Madison Petrogas Ltd, now SDX Energy Inc.

The decrease of US\$4.2 million is primarily due to the following:

- lower wages and employee costs (US\$2.3 million) due to the absence of \$1.0 million of transaction-related expenses (including severance) and a further US\$1.3 million as a result of internal restructuring following the business combination;
- lower consultancy fees (US\$0.1 million) due to rationalization of providers following the business combination;
- lower audit, tax and accounting services (US\$0.5 million) due to the re-negotiation of these contracts and only one audit for the SDX group whereas the comparatives include fees for both groups prior to the combination;
- lower office expenses following the consolidation of operations in London and Cairo (US\$0.2 million);
- travel costs reduced by US\$0.2 million due to fewer management travel requirements;
- higher IT expenses (US\$0.2 million) due to increased technical software licence costs;
- the absence of transaction costs incurred by Madison during the business combination (US\$0.5 million); and
- greater service recharges (US\$0.5 million) relating to the increase in cross charging of technical and administrative time spent by the Company on its exploration assets and the recovery of indirect overhead recharges from a concession partner.

### Depletion, depreciation and amortization (“DD&A”)

\$000's except per unit amounts	Twelve months ended December 31	
	2016	2015
Depletion, depreciation and amortization	3,266	3,775
Per bbl	4.99	6.81

For the twelve months ended December 31, 2016, depletion, depreciation and amortization (“DD&A”) was US\$3.3 million compared to US\$3.8 million the prior year. Excluding the impact of gas and NGL sales invoiced in Q4 2016, the DD&A per bbl was \$7.46/bbl.

The DD&A per concession was:

\$000's	Twelve months ended December 31	
	2016	2015
NW Gemsa	2,216	1,835
Shukheir Marine	-	184
Meseda - Block H	1,010	1,619
Corporate - office assets	40	137
<b>Total DD&amp;A</b>	<b>3,266</b>	<b>3,775</b>

### Net Earnings

As per the Financial Statements for the twelve months ended December 31, 2016, the Company recorded a Total Comprehensive Loss of US\$(28.0) million, compared to a pro-forma Total Comprehensive Income of US\$7.4 million for the twelve months ended December 31, 2015 (page 39 of this MD&A); a difference of US\$(35.4) million.

The main components of the difference (US\$(35.4) million) are:

- a fall in net revenues of US\$4.7 million as a result of lower oil prices, reduced production and the relinquishment of the Shukheir Marine concession effective January 31, 2015, partly offset by recognition of the gas and NGL revenues at NW Gemsa;
- higher exploration and evaluation expense of US\$24.2 million as a result of the withdrawal from the Bakassi West concession and the write down of the asset;
- the absence in 2016 of the US\$18.3 million gain on acquisition recorded on completion of the business combination between Sea Dragon and Madison, offset by;
- lower operating costs due to lower production levels (US\$0.8 million); lower DD&A charges in 2016 (US\$0.5 million) due to lower production levels;
- a lower impairment charge recorded for NW Gemsa in 2016 (US\$2.5 million);
- a higher one-off inventory gain in 2016 of US\$0.2 million to recognize inventory to be used in the South Disouq SD1-X well;
- increased income in Brentford Oil Tools of US\$0.2 million;
- lower stock based compensation of US\$1.0 million due the adjustment of one of the inputs to the Black-Scholes option pricing model, following the business combination between Sea Dragon and Madison.
- lower G&A of US\$4.2 million as a result on the business combination and consequent restructuring of the group;
- lower financing expenses due to the absence of amortised facility costs in 2016 and a reduction in interest paid (US\$0.7 million);
- a foreign exchange gain due to the devaluation of the Egyptian pound in November 2016, versus a loss in 2015 (US\$0.9 million); and
- lower current income tax expense of US\$0.9 million as a result of lower profits due to the falling oil price and lower production and the relinquishment of SHM.

# Management's Discussion & Analysis

## for the three and twelve months ended

### December 31, 2016

(prepared in US\$)

## Proforma financial information (continued)

### 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, Q3, Q2 and Q1, 2016 and Q4, 2015 represent the quarters 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	2016				2015			
Financial \$'000's	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Cash, beginning of period</b>								
SDX Energy Inc. post combination	4,961	6,949	8,671	8,170	12,480	-	-	-
Sea Dragon Energy Inc. - pre combination						494	3,105	2,966
Madison Petrogas Ltd - pre combination						12,463	19,056	17,936
<b>Cash, end of period</b>								
SDX Energy Inc. post combination	4,725	4,961	6,949	8,671	8,170	-	-	-
Sea Dragon Energy Inc. - pre combination						490	494	3,105
Madison Petrogas Ltd - pre combination						11,990	12,463	19,056
<b>Working capital</b>								
SDX Energy Inc. post combination	11,823	9,593	8,232	5,414	11,552	-	-	-
Sea Dragon Energy Inc. - pre combination						3,911	2,838	2,243
Madison Petrogas Ltd - pre combination						11,943	13,634	15,028
<b>Income/(loss) and comprehensive income/(loss)</b>								
SDX Energy Inc. post combination	(2,059)	140	(25,164)	(883)	8,542	-	-	-
Sea Dragon Energy Inc. - pre combination						(1,755)	230	(516)
Madison Petrogas Ltd - pre combination						(1,029)	1,110	777
<b>Net income/(loss) per share - basic</b>								
SDX Energy Inc. post combination	(0.030)	0.002	(0.455)	(0.023)	0.227	-	-	-
Sea Dragon Energy Inc. - pre combination						(0.005)	0.001	(0.001)
Madison Petrogas Ltd - pre combination						(0.013)	0.019	0.018
<b>Capital expenditures</b>								
SDX Energy Inc. post combination	856	188	6,475	5,819	2,404	-	-	-
Sea Dragon Energy Inc. - pre combination						781	270	188
Madison Petrogas Ltd - pre combination						797	1,605	313
<b>Total assets</b>								
SDX Energy Inc. post combination	41,617	43,901	47,231	64,907	60,016	-	-	-
Sea Dragon Energy Inc. - pre combination						28,258	29,145	38,011
Madison Petrogas Ltd - pre combination						42,912	44,333	49,425
<b>Shareholders' equity</b>								
SDX Energy Inc. post combination	37,264	39,161	38,560	54,457	55,246	-	-	-
Sea Dragon Energy Inc. - pre combination						23,925	25,644	25,355
Madison Petrogas Ltd - pre combination						40,769	41,660	40,403
<b>Common shares outstanding (000's)</b>								
SDX Energy Inc. post combination	79,844	79,844	75,934	37,642	37,642	-	-	-
Sea Dragon Energy Inc. - pre combination						376,459	376,459	376,459
Madison Petrogas Ltd - pre combination						56,348	56,348	56,348
<b>Warrants outstanding (000's)</b>								
SDX Energy Inc. post combination	-	-	611	611	611	-	-	-
Madison Petrogas Ltd - pre combination						1,280	1,280	1,280



Fiscal year	2016				2015			
Operational	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil sales (bbl/d)	468	510	554	606	652	674	719	993
Gas sales (mcf/d)	3,273	-	-	-	-	-	-	-
NGL sales (bbl/d)	445	-	-	-	-	-	-	-
Production service fee (bbl/d)	679	704	616	646	704	723	783	832
Total boe/d	4,865	1,214	1,170	1,252	1,356	1,397	1,502	1,825
Oil sales volumes (bbls)	43,087	46,935	50,407	55,159	59,988	62,031	65,434	89,403
Gas sales volumes (mcf)	301,137	-	-	-	-	-	-	-
NGL sales volumes (bbls)	40,897	-	-	-	-	-	-	-
Production service fee volumes (bbls)	65,504	64,792	56,026	58,823	64,751	66,517	71,216	74,923
Total sales and service fee volumes (boe)	444,625	111,727	106,433	113,982	124,739	128,548	136,650	164,326
Brent oil price (US\$/bbl)	49.23	45.78	45.54	33.73	43.56	50.26	61.72	53.78
West gharib oil price (US\$/bbl)	34.86	-	-	-	-	-	-	-
Realized oil price (US\$/bbl)	44.57	40.84	39.90	28.69	38.71	45.91	57.44	48.83
Realized service fee (US\$/bbl)	31.12	28.32	24.51	20.49	27.89	33.31	40.72	37.57
Realized oil sales price and service fees (US\$/bbl)	36.61	33.58	31.80	24.46	33.09	39.39	48.73	43.69
Realized gas price (US\$/mcf)	1.22	-	-	-	-	-	-	-
Realized NGL price (US\$/bbl)	57.73	-	-	-	-	-	-	-
Net Realized price - all products (US\$/boe)	18.85	33.58	31.80	24.46	33.09	39.39	48.73	43.69
Royalties (US\$/boe)	6.89	7.37	8.11	5.96	5.50	8.23	14.46	10.62
Sea Dragon Energy Inc. - pre combination	-	-	-	-	-	17.06	30.19	19.53
Operating costs (US\$/boe)	3.91	11.11	12.12	8.77	19.91	11.41	4.89	8.65
Sea Dragon Energy Inc. - pre combination	-	-	-	-	-	10.49	(5.13)	8.40
Madison Petrogas Ltd - pre combination	-	-	-	-	-	12.27	14.09	8.95
Netback - (US\$/boe)	8.05	15.11	11.57	9.73	7.68	19.75	29.38	24.42
Sea Dragon Energy Inc. - pre combination	-	-	-	-	-	18.36	32.38	20.90
Madison Petrogas Ltd - pre combination	-	-	-	-	-	21.04	26.63	28.61

# Low cost, high margin production

The stable and sustainable low cost of operations ensures SDX Energy will be a significant beneficiary of the eventual increase in commodity pricing.

**10,278** boe/d

Combined Egyptian daily average gross production for the twelve months to December 31, 2016



**16.9** mmboe

Asset reserves - North West Gemsa and Meseda (gross) at December 31, 2016



# Independent Auditor's Report

## 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, 2016 and December 31, 2015, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and Consolidated Statement 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 audit. We conducted our audit 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, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers LLP  
Chartered Accountants  
Aberdeen

March 24, 2017

# Consolidated Balance Sheet

## as at December 31, 2016 and 2015

(thousands of United States dollars)	Note	As at December 31 2016	As at December 31 2015
<b>Assets</b>			
Cash and cash equivalents	7	4,725	8,170
Trade and other receivables	8	9,463	6,678
Inventory	9	1,698	1,188
<b>Current assets</b>		<b>15,886</b>	<b>16,036</b>
Investments	12	2,503	2,106
Property, plant and equipment	10	12,605	18,401
Intangible exploration and evaluation assets	11	10,623	23,473
<b>Non-current assets</b>		<b>25,731</b>	<b>43,980</b>
<b>Total assets</b>		<b>41,617</b>	<b>60,016</b>
<b>Liabilities</b>			
Trade and other payables	14	3,674	3,556
Current income taxes	17	389	928
<b>Current liabilities</b>		<b>4,063</b>	<b>4,484</b>
Deferred income taxes	17	290	286
<b>Non-current liabilities</b>		<b>290</b>	<b>286</b>
<b>Total liabilities</b>		<b>4,353</b>	<b>4,770</b>
<b>Equity</b>			
Share capital	18	40,275	30,148
Warrants	18	-	99
Contributed surplus		5,128	5,175
Accumulated other comprehensive loss		(917)	(1,154)
(Accumulated loss)/retained earnings		(7,222)	20,978
<b>Total equity</b>		<b>37,264</b>	<b>55,246</b>
<b>Equity and liabilities</b>		<b>41,617</b>	<b>60,016</b>

The notes are an integral part of these Consolidated Financial Statements.

The financial statements on pages 50 to 74 were approved by the Board of Directors on March 24, 2017 and signed on its behalf by:



Paul Welch  
Chief Executive Officer



Mark Reid  
Chief Financial Officer

# Consolidated Statement of Comprehensive Income

## for the years ended December 31, 2016 and 2015

(thousands of United States dollars)	Note	Twelve months ended December 31	
		2016	2015
Revenue, net of royalties	20	12,914	11,372
Revenue		12,914	11,372
Direct operating expense		(5,282)	(4,973)
Exploration and evaluation expense	11	(24,833)	(73)
Depletion, depreciation and amortization	10	(3,266)	(2,057)
Impairment expense	10	(4,303)	(6,842)
Reversal of inventory provision	9	479	-
Stock based compensation	19	47	(761)
Share of profit from joint venture	12	1,222	1,024
Loss on disposal of office assets		-	(3)
General and administrative expenses	21	(3,679)	(4,770)
Operating loss		(26,701)	(7,083)
Net finance income/(expense)	22	4	(96)
Gain on acquisition	4	-	18,289
(Loss)/income before income taxes		(26,697)	11,110
Current income tax expense	17	(1,499)	(1,168)
Deferred income tax expense/(credit)	17	(4)	105
Total current and deferred income tax expense		(1,503)	1,063
<b>Net (loss)/income</b>		<b>(28,200)</b>	<b>10,047</b>
Other comprehensive income/(loss)			
Foreign exchange		237	(647)
<b>Total comprehensive (loss)/income for the period</b>		<b>(27,963)</b>	<b>9,400</b>
Net (loss)/income per share			
Basic	23	\$(0.394)	\$0.195
Diluted	23	\$(0.394)	\$0.195

The notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

## for the years ended December 31, 2016 and 2015

(thousands of United States dollars)	Note	Twelve months ended December 31	
		2016	2015
<b>Share capital</b>			
Balance, beginning of period	18	30,148	24,512
Issuance of common shares	18	-	5,636
Private placement - secondary listing on the London Stock Exchange AIM	18	10,988	-
Share issue costs	18	(861)	-
Balance, end of period		40,275	30,148
<b>Warrants</b>			
Balance, beginning of period	18	99	99
Expiry of warrants	18	(99)	-
Balance, end of period		-	99
<b>Contributed surplus</b>			
Balance, beginning of period		5,175	4,414
Share based payments for the period		(47)	761
Balance, end of period		5,128	5,175
<b>Accumulated other comprehensive loss</b>			
Balance, beginning of period		(1,154)	(507)
Foreign currency translation adjustment for the period		237	(647)
Balance, end of period		(917)	(1,154)
<b>Retained earnings</b>			
Balance, beginning of period		20,978	10,931
Net (loss)/income for the period		(28,200)	10,047
Balance, end of period		(7,222)	20,978
<b>Total equity</b>		<b>37,264</b>	<b>55,246</b>

The notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

## for the years ended December 31, 2016 and 2015

(thousands of United States dollars)	Note	Twelve months ended December 31	
		2016	2015
<b>Cash flows (used in)/from operating activities</b>			
(Loss)/income before income taxes		(26,697)	11,110
<b>Adjustments for:</b>			
Depletion, depreciation and amortization	10	3,266	2,057
Exploration and evaluation expense	11	24,416	73
Impairment expense	10	4,303	6,842
Reversal of inventory provision	9	(479)	-
Amortization of deferred transaction costs	22	-	378
Finance costs	22	(4)	(9)
Stock-based compensation	19	(47)	761
Gain on acquisition	4	-	(18,289)
Tax paid by State	17	(1,272)	(255)
Share of profit from joint venture	12	(1,222)	(1,024)
Loss on disposal of office assets		-	3
Operating cash flow before working capital movements		2,264	1,647
(Increase)/decrease in trade and other receivables	6b	(3,001)	(3,372)
(Decrease)/increase in trade and other payables	14	(408)	2,377
Increase in inventory	9	(31)	(1,188)
Cash used in operating activities		(1,176)	(536)
Income taxes paid	17	(766)	(4,678)
<b>Net cash (used in)/from operating activities</b>		<b>(1,942)</b>	<b>(5,214)</b>
<b>Cash flows (used in)/generated from investing activities:</b>			
Property, plant and equipment expenditures	10	(161)	(1,392)
Exploration and evaluation expenditures	11	(11,729)	(3,728)
Gain on disposal of office assets		-	8
Dividends received	12	825	917
Sea Dragon Energy Inc. net working capital as a result of the business combination effective October 1, 2015		-	3,911
<b>Net cash used in investing activities</b>		<b>(11,065)</b>	<b>(284)</b>
<b>Cash flows (used in)/generated from financing activities:</b>			
Repayment of debentures	13	-	(2,052)
Repayment of bank facility	13	-	(1,650)
Private Placement on London Stock Exchange AIM	18	10,127	-
Finance costs paid	22	(96)	-
<b>Net cash generated from/(used in) financing activities</b>		<b>10,031</b>	<b>(3,702)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(2,976)</b>	<b>(9,200)</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>		<b>(469)</b>	<b>(565)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>8,170</b>	<b>17,935</b>
<b>Cash and cash equivalents, end of period</b>		<b>4,725</b>	<b>8,170</b>

The notes are an integral part of these Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 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, 2016 and 2015 comprise the Company and its wholly owned subsidiaries and include the Company's share of joint arrangements as explained in note 12 below (together the "Group"). 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 are set out in note 4. Further, as described in note 28 to the Consolidated Financial Statements, on January 27, 2017, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc.

The Company is engaged in the exploration for and development and production of oil and natural gas. The Company's principle properties are located in the Arab Republic of Egypt and Morocco.

The Company's shares trade on the Toronto Venture Stock Exchange ("TSX-V") in Canada and on the London Stock Exchange's Alternative Investment Market ("AIM") in the United Kingdom under the symbol "SDX".

### 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 as issued by the International Accounting Standards Board ("IASB") and with IFRS Interpretations Committee ("IFRS IC") interpretations. These accounting standards and interpretations are collectively referred to as "IFRS" in this report.

The accounting policies that follow set out those policies that apply in preparing the audited Consolidated Financial Statements for the year ended December 31, 2016. The policies applied are based on IFRS issued and outstanding as of March 24, 2017.

#### (b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis.

#### (c) Functional and presentation currency

The functional currency for each entity in the Group, and for joint arrangements and associates, is the currency of the primary economic environment in which that entity operates. Transactions denominated in other currencies are converted to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at year-end exchange rates.

The Group's financial statements are presented in US dollars, as that presentation currency most reliably reflects the business performance of the Group as a whole. On consolidation, income statement items for each entity are translated from the functional currency into US dollars at average rates of exchange where the average is a reasonable approximation of rates prevailing on the transaction date. Balance sheet items are translated into US dollars at period-end exchange rates.

#### (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. Provisions recognized 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, 2018. The capital expenditure and operating costs used in these forecast cash flows are based on the Company's Board approved 2017 SDX corporate budget which reflects approved operating budgets for each of its Joint Ventures and an estimate of 2018 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, 2018. The Directors have made enquiries into and considered the Egyptian and Moroccan business environments, future expectations regarding commodity price risk and, in particular, oil price risk given the volatility in quoted Brent and WTI crude oil prices.

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

The Directors consider that in a lower cost environment the Company has sufficient resources, at its disposal to continue for the foreseeable future. The foreseeable future is defined as not being less than twelve months from the date of publication of the 2016 Annual Report.

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

**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 where the Company has: power over the entities, that is existing rights that give it the current ability to direct the relevant activities of the entities (those that significantly affect the Companies' returns); exposure, or rights, to variable returns from its involvement with the entities; and the ability to use its power to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

**(ii) Joint arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control such that decisions about the relevant activities of the arrangement (those that significantly affect the Companies' returns) require the unanimous consent of the parties sharing control. The Company has one joint arrangement, being its 50% equity interest in Brentford Oil Tools LLC ("Brentford"). As the parties sharing joint control in this entity have rights to its net assets, the arrangement constitutes a joint venture and is accounted for using the equity accounting method. Under the equity method of accounting, the investment in Brentford was initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. The Company's Consolidated 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.

In the comparative period, the Company's interest in Brentford was accounted for as an investment in an associate. As this was also equity accounted, no restatement of comparative figures is required.

**(iii) Investments in associates**

An associate is an entity over which the Company has significant influence, and is equity accounted for.

**(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.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 3. Significant accounting policies (continued)

#### (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 Consolidated Statement of Comprehensive Income

An instrument is classified at fair value through the Consolidated 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 Consolidated 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 Consolidated Statement of Comprehensive Income when incurred. Financial instruments are measured at fair value, and changes therein are recognized in the Consolidated 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 Consolidated 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 in the period during which this determination is made.

#### (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), a straight-line basis is used over the assets’ estimated useful lives, 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 Consolidated 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 Consolidated 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.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 3. Significant accounting policies (continued)

#### (f) Impairment (continued)

##### (ii) Non-financial assets (continued)

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 a CGU is the greater of its fair value less cost of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU 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 CGU 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, and 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, 2016, the explanation following sets out the Company's accounting policy relating to the obligation that was in place during the year ended December 31, 2015. 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 ("NGLs") 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 Consolidated 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

New and amended standards and interpretations need to be adopted in the first financial statements issued after their effective date (or date of early adoption). Amendments have been made to the following standards effective January 1, 2016. These amendments have not had a material impact on the Consolidated Financial Statements.

- IFRS 11 – Joint Arrangements
- IAS 16 – Property, Plant and Equipment
- IAS 38 – Intangible Assets
- IAS 27 – Separate Financial Statements
- IFRS 10 – Consolidated Financial Statements
- IAS 1 – Presentation of Financial Statements

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 does not expect this standard to have a significant impact 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 does not expect this standard to have a significant impact on its 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 does not expect this standard to have a significant impact on its Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

#### 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 effected 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 held 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. was actually the accounting acquiree and Madison Petrogas Limited, was the accounting acquirer. As Madison Petrogas Limited was 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 prices as at September 30, 2015 in CAD\$	0.70
Fair value shares issued	7,529
USD/CAD exchange rate	0.7485
<b>Fair value of shares issued - US\$</b>	<b>5,636</b>

Transaction costs associated with this transaction have been included in the Consolidated 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 was 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
<b>Total identifiable net assets at fair value</b>	<b>23,925</b>

Paid by:

Fair value of shares issued	5,636
Less: Fair value of assets acquired	23,925
<b>Gain on acquisition</b>	<b>18,289</b>

The reverse takeover resulted in a bargain gain due to the shareholders of Sea Dragon Energy being prepared to, in a low oil price environment, accept a transaction below fair value in exchange for enhancing Sea Dragon's immediately available financial resources, near term cost of capital and future access to capital in order to fund its current field development and exploration commitments, and provide a better platform for its future acquisition opportunities.

## 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.

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.

## 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:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Cash and cash equivalents	4,725	8,170
Trade and other receivables	9,463	6,678
<b>Total</b>	<b>14,188</b>	<b>14,848</b>

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 6. Financial risk management (continued)

#### (b) Credit risk (continued)

##### Trade and other receivables

All of the Company's operations were 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, 2016 and 2015.

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

\$000's	Carrying amount	
	December 31 2016	December 31 2015
<b>Current</b>		
Government of Egypt controlled corporations	7,745	5,018
Joint venture partners	578	862
Other	1,140	798
<b>Total trade and other receivables</b>	<b>9,463</b>	<b>6,678</b>

Current receivables of US\$7.7 million related to oil, gas and NGL sales and production service fees which are due from EGPC (December 31, 2015: US\$5.0 million), a Government of Egypt controlled corporation.

Receivables in respect of oil sales and service fees are normally collected in two to three months following production. The Company expects to collect outstanding receivables of US\$3.4 million for NW Gemsa (2015: US\$0.8 million), which includes the US\$2.3 million gas and NGL revenue recognized in Q4 2016 (with no comparable balance at December 31, 2015), and US\$2.3 million for Block – H Meseda (2015: US\$1.2 million), in the normal course of operations.

The US\$2.0 million of Shukheir Marine oil invoices (2015: US\$3.0 million), which are pledged against the Company's obligations under its South Disouq work program, are expected to be collected during Q2 2017 as the South Disouq work programme is now complete.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. Joint venture partner receivables of US\$0.6 million (2015 - US\$0.9 million) relate to the South Disouq concession only (2015: South Disouq US\$0.8 million and Block – H Meseda US\$0.1 million).

The other receivables of US\$1.1 million consist of US\$0.7 million related to prepayments, US\$0.3 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US\$0.1 million for other items.

The difference between the increase of US\$2.8 million in Trade and other receivables as at December 31, 2016 and December 31, 2015 and the increase of US\$3.0 million as reflected in the Consolidated Statement of Cash Flows relates to foreign exchange movements.

As at December 31, 2016 and December 31, 2015, the Company's trade and other receivables, is aged as follows:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
<b>Current</b>		
Current (less than 90 days)	6,863	3,364
Past due (more than 90 days)	2,600	3,314
<b>Total - current</b>	<b>9,463</b>	<b>6,678</b>

Current trade and other receivables are unsecured and non-interest bearing. The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have decreased by US\$0.8 million when compared to December 31, 2015. This decrease is primarily due to the collection of US\$1.0 million of the Shukheir Marine receivables as explained above.

Subsequent to December 31, 2016, the Company collected US\$2.5 million of trade receivables from those that were outstanding at December 31, 2016; US\$0.1 million for NW Gemsa representing October 2016 crude oil sales invoices, US\$1.3 million for Meseda representing September, October and November 2016 production service fees and US\$1.4 million of the rolling South Disouq production guarantee referred to above.

##### 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 in established banks in either countries of operation or the UK, the majority of which have A or AA ratings. Given these credit ratings, 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, 2016, 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\$ and GBP 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:

	Total per FS <sup>(1)</sup>	US\$	EGP US\$ equivalent	GBP	Other
<b>As at December 31, 2016</b>					
Cash and cash equivalents	4,725	1,847	2,104	694	80
Trade and other receivables	9,463	8,544	16	838	65
Trade and other payables	(3,674)	(1,757)	(1,377)	(525)	(15)
Current income taxes	(389)	-	(389)	-	-
<b>Balance sheet exposure</b>	<b>10,125</b>	<b>8,634</b>	<b>354</b>	<b>1,007</b>	<b>(130)</b>

(1) denotes Financial Statements

The average exchange rates during the three months ended December 31, 2016 and 2015 were 1 US\$ equals:

#### Average: October 1, 2016 to December 31, 2016

	USD/EGP	USD/GBP
Period average	14.3634	0.8044

#### Average: October 1, 2015 to December 31, 2015

	USD/EGP	USD/GBP
Period average	7.8530	0.6590

The average exchange rates during the twelve months ended December 31, 2016 and 2015 were 1 US\$ equals:

#### Average: January 1, 2016 to December 31, 2016

	USD/EGP	USD/GBP
Period average	10.0211	0.7405

#### Average: January 1, 2015 to December 31, 2015

	USD/EGP	USD/GBP
Period average	7.6849	0.6542

The exchange rates as at December 31, 2016 and 2015 were 1 US\$ equals:

#### Period end: December 31, 2016

	USD/EGP	USD/GBP
Period end	18.1274	0.8113

#### Period end: December 31, 2015

	USD/EGP	USD/GBP
Period end	7.8041	0.6755

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 6. Financial risk management (continued)

#### (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, 2016 the Company did not have any outstanding derivatives in place.

#### (g) Capital management

The Company defines and computes its capital as follows:

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Equity	37,264	55,246
Working capital <sup>(1)</sup>	(11,823)	(11,552)
<b>Total capital</b>	<b>25,441</b>	<b>43,694</b>

(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.

### 7. Cash and cash equivalents

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Bank balances	4,725	8,170
Cash and cash equivalents	4,725	8,170

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

### 8. Trade and other receivables

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Trade receivables	7,745	5,018
Other receivables	1,718	1,660
<b>Total</b>	<b>9,463</b>	<b>6,678</b>

For discussion of these balances, see Note 6 (b).

### 9. Inventory

As at December 31, 2016 the Company undertook a comprehensive stockcounting exercise over all spare parts and consumables inventory. Given the forthcoming exploration drilling operations on the South Disouq concession, and in order to identify an optimal use for the Company's inventory, a quantity of on hand drill pipe and casing was inspected and certified for use in the SD1-X well. This inventory was from legacy exploration operations and previously was carried at nil value as it was not planned to be used and thus was uncertified. Furthermore the inventory had been attributed a zero realizable value due to the limited resale market in Egypt and was therefore fully provided-for. The reversal of the provision previously recognized against this inventory has resulted in a US\$0.5 million credit to the Consolidated Statement of Comprehensive Income, which has increased the book value of inventory from US\$1.2 million at December 31, 2015 to US\$1.7 million at December 31, 2016.

## 10. Property, plant and equipment

\$000's	Oil and gas properties	Furniture and fixtures	Total
<b>Cost:</b>			
<b>Balance at December 31, 2014</b>	<b>12,824</b>	<b>174</b>	<b>12,998</b>
Additions	1,375	17	1,392
Acquisitions	16,679	68	16,747
Foreign currency revaluation	-	(32)	(32)
Decommissioning provision release	(208)	-	(208)
Disposals	-	(8)	(8)
Assets scrapped	(7)	(99)	(106)
<b>Balance at December 31, 2015</b>	<b>30,663</b>	<b>120</b>	<b>30,783</b>
Additions	1,705	68	1,773
<b>Balance at December 31, 2016</b>	<b>32,368</b>	<b>188</b>	<b>32,556</b>
<b>Accumulated depletion, depreciation, amortization and impairment:</b>			
<b>Balance at December 31, 2014</b>	<b>(3,478)</b>	<b>(128)</b>	<b>(3,606)</b>
Depletion, depreciation and amortization for the year	(2,014)	(43)	(2,057)
Foreign currency revaluation	-	28	28
Impairment charge	(6,842)	-	(6,842)
Assets scrapped	-	95	95
<b>Balance at December 31, 2015</b>	<b>(12,334)</b>	<b>(48)</b>	<b>(12,382)</b>
Depletion, depreciation, amortization and impairment for the year	(3,225)	(41)	(3,266)
Impairment charge	(4,303)	-	(4,303)
<b>Balance at December 31, 2016</b>	<b>(19,862)</b>	<b>(89)</b>	<b>(19,951)</b>
NBV Property, plant and equipment as at December 31, 2015	18,329	72	18,401
<b>NBV Property, plant and equipment as at December 31, 2016</b>	<b>12,506</b>	<b>99</b>	<b>12,605</b>

During the year ended December 31, 2016, PP&E additions of US\$1.8 million predominantly related to the NW Gemsa concession and were for the drilling of Al Amir SE-23 and Al Amir SE-24, and the well work over programme. The difference between the US\$1.8 million disclosed above and the US\$0.2 million Property, plant and equipment expenditure in the Consolidated Statement of Cash Flows is due to the fact that c.US\$1.6 million of the costs of the Al Amir SE-23 and SE-24 wells are part of Trade and other payables as at December 31, 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 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.

At December 31, 2016 for the purposes of the depletion calculation, US\$3.3 million (December 31, 2015 – US\$3.4 million) of future development costs are included in the calculation of cost in determining the depletion rate.

### Impairment assessment

At the reporting date, management performed an impairment indicator assessment and concluded that due to a reduction in the proved and probable reserves for the NW Gemsa concession, as well as increased forecast operating expenditure, the asset should be tested for impairment.

The impairment test was carried out in accordance with the accounting policy note stated in note 3. The recoverable amounts of the field has been determined based on a value-in-use calculation. This calculation requires 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 12.5%. The discount rate used reflects the specific risks relating to the underlying cash generating unit ("CGU").

Based on this calculation for NW Gemsa an impairment of US\$4.3 million has been recorded.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 10. Property, plant and equipment (continued)

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

	2016	2017	2018	2019	2020	2021	2022
	US\$54.40	US\$58.25	US\$57.85	US\$50.05	US\$58.61	US\$59.17	US\$59.85

If the discount factor applied to the impairment test were to increase by 2.5% above the current factor of 12.5%, the impairment of the NW Gemsa field would increase by US\$0.2 million.

If the discount factor applied to the impairment test were to decrease by 2.5% below the current factor of 12.5%, the impairment of the NW Gemsa field would decrease by US\$0.1 million.

A 10% reduction in the Brent oil sales price would increase the impairment by US\$1.1 million.

A 15% reduction in the Brent oil sales price would increase the impairment by US\$1.6 million. In the prior period the NW Gemsa field was impaired by US\$6.8 million, due to falling crude oil prices and a reduction in the proved and probable reserves.

### 11. Intangible exploration and evaluation assets

\$000's

<b>Balance at December 31, 2014</b>	<b>16,460</b>
Additions	3,728
Acquisitions	3,267
Exploration and evaluation expense	18
<b>Balance at December 31, 2015</b>	<b>23,473</b>
Additions	11,566
Exploration and evaluation expense	(24,416)
<b>Balance at December 31, 2016</b>	<b>10,623</b>

The E&E additions of US\$11.6 million consists of US\$5.6 million primarily in relation to the drilling of the Manatee-1 exploration well in the Bakassi West block in Cameroon ("Bakassi West") and US\$6.0 million in relation to the 3D seismic programme in the South Disouq concession in Egypt.

On June 16, 2016 the Company issued a press release announcing its intention to withdraw from the Bakassi West, Cameroon concession (which became effective July 31, 2016).

As the Bakassi West drilling operations had been completed by June 30, 2016, the Company made a full provision against the capitalised exploration cost of US\$24.4 million and reflected the relevant impairment in the Consolidated Statement of Comprehensive Income Statement for the period to June 30, 2016. There has been no material change to this position as at December 31, 2016.

In addition to the US\$24.4 million provision against capitalised exploration cost, the Consolidated Statement of Comprehensive Income for the year ended December 31, 2016 reflects a further US\$0.4 million of costs relating to new ventures activities.

### 12. Investments

The Company owns a 50% equity interest in Brentford Oil Tools LLC ("Brentford"), an oilfield services business incorporated in Egypt, over which it exercises joint control. Brentford owns all assets which it uses to provide its services and is legally responsible for settling its liabilities. Although in the current and comparative period Brentford has only provided services to its shareholders, it is not contractually obliged to do so and in the past it has contracted with third parties and continues to seek opportunities to do so. On the balance of facts, the Company has concluded that Brentford is a Joint Venture under IFRS 11 – "Joint Arrangements" and the Company's interest is equity accounted for. The investment is reviewed regularly for indicators of impairment and no impairment was identified for the years ended December 31, 2016 and 2015.

The following table summarizes the changes in investments for the year ended December 31, 2016 and 2015:

\$000's	December 31	December 31
	2016	2015
Investments, beginning of year	2,106	1,999
Dividends received	(825)	(917)
Share of profit	1,222	1,024
<b>Investments, end of year</b>	<b>2,503</b>	<b>2,106</b>

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, 2016 and 2015:

\$000's	December 31 2016	December 31 2015
Total assets	2,405	2,469
Total liabilities	3	316
Revenue	1,656	1,816
Net profit	1,222	1,024

During the year ended December 31, 2016 50% (December 31, 2015 – 50%) of Brentford's revenue was earned from fees charged to the Company.

### 13. Loans and borrowings

As at December 31, 2016 the Company had no loans or borrowings outstanding.

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 Consolidated Statement of Comprehensive Income in October 2015 as a result of the full repayment and termination of the Facility, see note 22.

### 14. Trade and other payables

\$000's	Carrying amount	
	December 31 2016	December 31 2015
<b>Current</b>		
Trade payables	663	198
Accruals	684	1,284
Other payables	2,327	2,074
<b>Total</b>	<b>3,674</b>	<b>3,556</b>

Trade payables include US\$0.3 million of NGL and gas transportation and treatment costs associated with the sales of these products recognized during Q4 2016. There was no corresponding balance as at December 31, 2015.

Accruals primarily comprise general and administrative costs related to legal, audit, tax and reserve reporting fees. The main reduction from the position as at December 31, 2015 is the absence of a US\$0.5 million restructuring accrual which existed at December 31, 2015 and which since been settled.

Other payables of US\$2.3 million comprise an estimated liability of US\$0.5 million related to the relinquishment of the Shukheir Marine concession (2015: US\$1.1 million), partner current accounts of US\$1.2 million for NW Gemsa (2015:US\$0.7 million), US\$0.5 million Block-H Meseda (2015:US\$nil million) concessions, UK payroll taxes and deferred payroll of US\$0.1 million (2015: US\$0.3 million).

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

The difference between the increase of US\$0.1 million in trade and other payables in the Consolidated Balance Sheets as at December 31, 2016 and December 31, 2015 and the cash outflow relating the implied decrease of US\$0.4 million as reflected in the Consolidated Statement of Cash Flows relates to the removal of capital expenditure items from the comparison in the Consolidated Statement of Cash Flows and the impact of foreign exchange movements.

### 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.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 15. Debentures (continued)

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 prices 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 was recorded as interest expense, resulting in an effective interest rate on the debentures of 10%.

### 16. Decommissioning provision

As at December 31, 2016, the Company believes that no decommissioning provision is required.

The Company previously 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, to be incurred between the years 2017 and 2035 and the liability was discounted using a risk-free rate of 2.20%.

\$000's	Carrying amount	
	December 31 2016	December 31 2015
Decommissioning provisions, beginning of year	-	217
Changes in estimate	-	(4)
Liabilities incurred	-	36
Accretion	-	(9)
Release of decommissioning liability	-	(240)
<b>Decommissioning provisions, end of year</b>	<b>-</b>	<b>-</b>

### 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 27% (2015 – 26%) to income before income taxes as follows:

#### Statement of Comprehensive Income

\$000's except per unit amounts	Twelve months ended December 31	
	2016	2015
Income before income taxes	(26,697)	12,684
Canadian statutory income tax rate	27%	26%
Expected income taxes	(7,208)	2,889
Adjustments:		
Non deductible items	(57)	193
Non taxable gain on acquisition	-	(4,750)
Unrecognized income tax benefit	385	344
Foreign tax differential	433	(50)
Expenses incurred with no recognized tax benefit	7,950	2,437
<b>Total current and deferred income tax expense</b>	<b>1,503</b>	<b>1,063</b>

(b) The components of the deferred income tax assets and liabilities at December 31, 2016 and 2015 include the following:

#### Consolidated Balance Sheet

\$000's except per unit amounts	Twelve months ended December 31	
	2016	2015
Deferred tax assets/(liabilities):		
Investments	(9)	(7)
Property and equipment	(292)	(286)
Non-capital losses	15,647	15,258
Deferred tax assets not recognized	(15,636)	(15,251)
<b>Deferred income tax liability</b>	<b>(290)</b>	<b>(286)</b>

(c) The Company has US\$56.5 million of non-capital losses available at December 31, 2016 (2015: US\$56.8 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\$15.6 million at December 31, 2016 (2015: US\$15.3 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.

#### 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, 2016		December 31, 2015	
	Number of Shares (\$000's)	Stated Value (\$000's)	Number of Shares (\$000's)	Stated Value (\$000's)
Balance, beginning of year	37,642	30,148	56,348	24,512
Business combination	-	-	(29,462)	-
Share for share exchange	-	-	10,756	5,636
Private placing of shares on the London Stock Exchange (AIM) (less share issue costs)	42,202	10,127	-	-
<b>Balance, end of year</b>	<b>79,844</b>	<b>40,275</b>	<b>37,642</b>	<b>30,148</b>
Weighted average shares outstanding	71,509		51,633	

(c) Common Share Warrants issued

	December 31, 2016		December 31, 2015	
	Number of Shares (\$000's)	Stated Value (\$000's)	Number of Shares (\$000's)	Stated Value (\$000's)
Balance, beginning of year	611	99	1,280	99
Business combination	-	-	(669)	-
Expiry of warrants	(611)	(99)	-	-
<b>Balance, end of year</b>	<b>-</b>	<b>-</b>	<b>611</b>	<b>99</b>

The 610,743 warrants expired on July 27, 2016.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 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, 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.

During the year ended December 31, 2016, 395,000 options were cancelled as a result of two non-executive Directors and one employee leaving the Company. In addition 190,000 options were issued during the year to three new employees.

During the period it was determined that one of the inputs to the Black-Scholes option pricing model, specifically volatility of returns, required to be updated following the business combination between Sea Dragon and Madison. As a result, a non-cash stock based compensation credit of US\$0.1m has been recognized for the twelve months ended December 31, 2016. For the twelve months ended December 31, 2015 the Company recorded a non-cash stock based compensation charge of US\$0.8 million.

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\$)
<b>Outstanding January 1, 2016</b>	<b>2,650</b>	<b>0.63</b>
Cancelled during the period	(395)	0.63
Issued during the period	190	0.36
<b>Outstanding December 31, 2016</b>	<b>2,445</b>	<b>0.61</b>
<b>Exercisable December 31, 2016</b>	<b>1,567</b>	<b>0.62</b>

The exercise price of the outstanding options is as follows:

Exercise price range	Outstanding options		Vested options	
	Number of options	Remaining contractual life	Number of options	Remaining contractual life
CAD \$0.36 - \$0.63	2,445,000	3 - 5 years	1,566,651	3 - 5 years

	2016	2015
Fair value at grant date (CDN)	\$0.28	\$0.61
Share price (CDN)	\$0.36	\$0.63
Exercise price (CDN)	\$0.36	\$0.63
Volatility (%)	70	70
Forfeiture (%)	0	0
Option life	5 years	5 years
Dividends (%)	0	0
Risk-free interest rate (%)	0.8	0.8



## 20. Revenue, net of royalties

	Twelve months ended December 31	
	2016	2015
Oil revenue	7,432	2,322
Royalties	(3,190)	(686)
<b>Oil revenue, net of royalties</b>	<b>4,242</b>	<b>1,636</b>
Gas revenue	2,210	-
Royalties	(1,059)	-
<b>Gas revenue, net of royalties</b>	<b>1,151</b>	<b>-</b>
NGL revenue	2,361	-
Royalties	(1,199)	-
<b>NGL revenue, net of royalties</b>	<b>1,162</b>	<b>-</b>
<b>Production service fees</b>	<b>6,359</b>	<b>9,736</b>
<b>Total net revenue before tax</b>	<b>12,914</b>	<b>11,372</b>

The oil, gas and NGLs revenue and royalties relate to the NW Gemsa concession, which is governed by a PSC. The royalties are those attributable to the government take in accordance with the fiscal terms of the PSC.

The Company commenced sales of gas and NGLs in February 2013 from the NW Gemsa concession, recognizing revenue from February to September of that year. Subsequent to this, the Company ceased recognizing revenue due to a dispute with EGPC over entitlement volumes. This dispute has now been resolved such that the Company believes it appropriate to recognize revenues from October 1, 2013 to December 31, 2016, which equates to US\$2.2 million of gas sales and US\$2.4 million of NGLs. These sales were recognized in Q4 2016 and are reflected in the Consolidated Financial Statements.

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

## 21. General and administration expenses

	Twelve months ended December 31	
	2016	2015
Wages and employee costs	2,532	2,828
Consultants - inc. PR/IR	479	499
Legal fees	237	124
Audit, tax and accounting services	246	449
Public company fees	332	228
Travel	166	250
Office expenses	668	490
IT expenses	322	75
Transaction costs	-	496
Service recharges	(1,303)	(669)
<b>Total - net G&amp;A</b>	<b>3,679</b>	<b>4,770</b>

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 27.

General and administrative ("G&A") costs for 2016 were US\$3.7 million, which represented a decrease of US\$1.1 million compared to 2015.

In accordance with IFRS 3 - Business Combinations (see note 4) the 2015 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.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 22. Net finance income/(expense)

	Twelve months ended December 31	
	2016	2015
Interest and bank charges	(95)	273
Amortization of facility costs	-	(378)
Expiry of warrants	99	-
Accretion of decommissioning provisions	-	9
<b>Net finance income/(expense)</b>	<b>4</b>	<b>(96)</b>

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.

### 23. (Loss)/income per share

	Twelve months ended December 31	
	December 31 2016	December 31 2015
\$000's		
Net (loss)/income before other comprehensive income for the year	(28,200)	10,047
Weighted average number of shares (000's)		
Basic	71,509	51,633
Diluted	71,557	51,633
Per share amount		
Basic	\$(0.394)	\$0.195
Diluted	\$(0.394)	\$0.195

Basic (loss)/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, resulting in a diluted EPS equal to the basic EPS. For the year ended December 31, 2016 a net loss before other comprehensive income was recorded and thus these instruments became anti-dilutive, resulting in a diluted EPS equal to the basic EPS.

### 24. Segmental reporting

The Company is engaged in the business of exploration for and production of oil and gas only, which represents a single operating segment. The executive directors are the Company's chief operating decision maker within the meaning of IFRS 8.

Non-current assets other than financial instruments by country are as follows:

	Carrying amount	
	December 31 2016	December 31 2015
\$000's		
Cameroon	-	18,795
Egypt	25,707	25,145
United Kingdom	24	40
<b>Total</b>	<b>25,731</b>	<b>43,980</b>

## 25. Commitments and contingencies

Pursuant to the concession and production service fee agreements in Egypt, the Company is required to perform certain minimum exploration and development activities that include the drilling of exploration and development wells. These obligations have not been provided for in the Consolidated Financial Statements.

The commitments are for the drilling of one exploration well for South Disouq (US\$1.3 million) and the drilling of one development well and facilities upgrade for South Ramadan (US\$2.9 million).

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

\$000's	December 31 2016	December 31 2015
Less than one year	1,340	13,677
Between one and five years	2,933	2,933
<b>Total</b>	<b>4,273</b>	<b>16,610</b>

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:

\$000's	December 31 2016	December 31 2015
Less than one year	318	302
Between one and five years	499	813
<b>Total</b>	<b>817</b>	<b>1,115</b>

## 26. Related party transactions

All subsidiaries and joint arrangements (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 Gamsa) B.V. (Netherlands)	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 Island
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

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015

(tabular amounts are in thousands of United States dollars except where stated)

### 27. Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2016 and 2015 was as follows:

	Twelve months ended December 31	
	2016	2015
Salaries, incentives and short term benefits	1,087	2,271
Director's fees	153	124
Stock based compensation	(114)	642
<b>Total</b>	<b>1,126</b>	<b>3,037</b>

In the year ended December 31, 2015, termination benefits of US\$377k were paid to Said Arrata, the former Chairman of the Company and US\$433k were paid to Olivier Serra, the former CFO of the Company.

### 28. Post balance sheet events

On January 27, 2017 the Company announced the acquisition, through two of its wholly-owned subsidiaries, of the entire issued share capital of Circle Oil Egypt Limited ("COEL") and Circle Oil Morocco Limited ("COML") for a cash purchase price of US\$28.1 million.

The acquisition was funded by means of a conditional placing of new Common Shares in SDX at a Placing Price of 30 pence (C\$0.50) per Placing Share, amounting to US\$40.0 million before costs.

COEL holds a 40% interest in the NW Gemsa concession, Eastern Desert, Egypt. Prior to the acquisition, SDX held a 10% interest in this concession, bringing the post-acquisition holding to 50%.

COML holds 75% interest and operatorship in certain licences, onshore Morocco, with L'Office National des Hydrocarbures et des Mines ("ONHYM") holding a 25% interest.

The acquisition is in accordance with the Company's strategy to pursue distressed production and development opportunities in North Africa alongside organic growth.

The provisional fair value of the identifiable assets and liabilities of COEL and COML as at the date of acquisition were:

	Fair value as at January 27, 2017 US\$ million
<b>Non-current assets</b>	
Property, plant & equipment	43.2
<b>Current assets</b>	
Cash and cash equivalents	3.1
Trade and other receivables	36.0
Inventory	1.2
Current tax	0.1
<b>Non-current liabilities</b>	
Decommissioning liability	(2.8)
Deferred income	(0.7)
<b>Current liabilities</b>	
Trade and other payables	(18.9)
Decommissioning liability	(1.2)
Deferred income	(0.4)
<b>Total identifiable net assets at fair value</b>	<b>59.6</b>
<b>Total consideration</b>	<b>(28.1)</b>
<b>Excess of fair value over cost (bargain purchase)</b>	<b>31.5</b>

Prior to the acquisition the parent company of COEL and COML, Circle Oil Jersey Limited, was placed into administration. The excess of fair value over cost arises due to the fact that COEL and COML were distressed businesses and purchased out of administration. A provisional bargain purchase gain amounting to US\$31.5 million will be recognised in the Consolidated Statement of Comprehensive Income for the three months to March 31, 2017 and twelve months to December 31, 2017. No provision has been made against the value of the acquired receivables.

COEL and COML contributed US\$nil revenue and US\$nil profit/loss to the Consolidated Financial Statements for year to December 31, 2016.

# Corporate information

## Executive Officers

Paul Welch  
President &  
Chief Executive Officer &  
Chief Operating Officer

Mark Reid  
Chief Financial Officer

Ahmed Farid Moaz  
Egypt Country Manager

## Independent Directors

Michael Doyle  
Non-Executive Chairman

David Mitchell  
David Richards  
Michael Raynes

## Stock Exchange Listing

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London Stock Exchange AIM  
Symbol: SDX

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