Financial Statements
2017 Q1 Interim Report

Interim Consolidated Balance Sheet (Unaudited)

(thousands of United States dollars)	Note	As at March 31 2017	As at December 31 2016
Assets			
Cash and cash equivalents		**21,052**	4,725
Trade and other receivables	6	**42,281**	9,463
Inventory		**2,835**	1,698
Current assets		**66,168**	15,886
Investments	9	**2,877**	2,503
Property, plant and equipment	7	**52,837**	12,605
Intangible exploration and evaluation assets	8	**10,912**	10,623
Non-current assets		**66,626**	25,731
Total assets		**132,794**	41,617
Liabilities			
Trade and other payables	10	**23,903**	3,674
Deferred income	11	**475**	-
Decommissioning liability	12	**1,200**	-
Current income taxes	18	**551**	389
Current liabilities		**26,129**	4,063
Deferred income	11	**628**	-
Decommissioning liability	12	**2,783**	-
Deferred income taxes	18	**290**	290
Non-current liabilities		**3,701**	290
Total liabilities		**29,830**	4,353
Equity			
Share capital	13	**78,985**	40,275
Warrants	13	**-**	-
Contributed surplus		**5,171**	5,128
Accumulated other comprehensive loss		**(838)**	(917)
Retained earnings/(accumulated loss)		**19,646**	(7,222)
Total equity		**102,964**	37,264
Equity and liabilities		**132,794**	41,617

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

The financial statements on pages 40 to 51 were approved by the Board of Directors on May 19, 2017 and signed on its behalf by:

Paul Welch
Chief Executive Officer

Mark Reid
Chief Financial Officer

Interim Consolidated Statement of Comprehensive Income (Unaudited)

(thousands of United States dollars)	Note	Three months ended March 31 2017	 2016
Revenue, net of royalties	15	8,136	2,110
Revenue		8,136	2,110
Direct operating expense	16	(2,048)	(999)
Exploration and evaluation expense		(73)	-
Depletion, depreciation and amortization	7	(3,522)	(817)
Stock based compensation	14	(43)	(94)
Equity in income of associate	9	374	347
General and administrative expenses			
- Ongoing general and administrative expenses	17	(2,181)	(860)
- Transaction costs	17	(2,218)	-
Operating loss		(1,575)	(313)
Net finance expense		(37)	(364)
Gain on acquisition	3	29,464	-
Income/(loss) before income taxes		27,852	(677)
Current income tax expense	18	(984)	(206)
Deferred income tax expense	18	-	-
Total current and deferred income tax		(984)	(206)
Net income/(loss)		26,868	(883)
Other comprehensive income/(loss)			
Foreign exchange		79	-
Total comprehensive income/(loss) for the period		26,947	(883)
Net income/(loss) per share			
Basic	19	$0.172	$(0.023)
Diluted	19	$0.171	$(0.023)

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

Financial Statements

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	Note	Three months ended March 31 2017	2016
Share capital			
Balance, beginning of period	13	**40,275**	30,148
Issuance of common shares	13	**39,491**	-
Share issue costs	13	**(781)**	-
Balance, end of period		**78,985**	30,148
Warrants			
Balance, beginning of period		**-**	99
Expiry of warrants		**-**	-
Balance, end of period		**-**	99
Contributed surplus			
Balance, beginning of period		**5,128**	5,175
Share based payments for the period		**43**	94
Balance, end of period		**5,171**	5,269
Accumulated other comprehensive loss			
Balance, beginning of period		**(917)**	(1,154)
Foreign currency translation adjustment for the period		**79**	-
Balance, end of period		**(838)**	(1,154)
(Accumulated loss)/retained earnings			
Balance, beginning of period		**(7,222)**	20,978
Net income/(loss) for the period		**26,868**	(883)
Balance, end of period		**19,646**	20,095
Total equity		**102,964**	54,457

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

Interim Consolidated Statement of Cash Flows (Unaudited)

(thousands of United States dollars)	Note	Three months ended March 31 2017	2016
Cash flows generated from/(used in) operating activities			
Income/(loss) before income taxes		**27,852**	(677)
Adjustments for:			
Depletion, depreciation and amortization	7	**3,522**	817
Exploration and evaluation expense	8	**53**	-
Finance expense		**37**	76
Stock-based compensation	14	**43**	94
Gain on acquisition	3	**(29,464)**	-
Tax paid by State	18	**(754)**	(174)
Equity in income of associate	9	**(374)**	(347)
Operating cash flow before working capital movements		**915**	(211)
Decrease in trade and other receivables	5a	**1,683**	977
Increase in trade and other payables	10	**465**	1,027
Increase in inventory		**-**	-
Cash generated from operating activities		**3,063**	1,793
Income taxes paid	18	**(8)**	-
Net cash generated from operating activities		**3,055**	1,793
Cash flows (used in)/generated from investing activities:			
Property, plant and equipment expenditures	7	**(113)**	-
Exploration and evaluation expenditures	8	**(288)**	(918)
Acquisition of subsidiaries	3	**(28,056)**	-
Cash balance acquired during the period	3	**3,108**	-
Net cash used in investing activities		**(25,349)**	(918)
Cash flows generated from/(used in) financing activities:			
Issuance of common shares	13	**38,710**	-
Finance costs paid		**(37)**	(93)
Net cash generated from/(used in) financing activities		**38,673**	(93)
Increase in cash and cash equivalents		**16,379**	782
Effect of foreign exchange on cash and cash equivalents		**(52)**	(281)
Cash and cash equivalents, beginning of period		**4,725**	8,170
Cash and cash equivalents, end of period		**21,052**	8,671

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

Notes to the Interim Consolidated Financial Statements
for the three months ended March 31, 2017 and 2016

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

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 unaudited Interim Consolidated Financial Statements of the Company as at and for the periods ended March 31, 2017 and 2016 comprise the Company and its wholly owned subsidiaries and include the Company's share of joint arrangements (together the "Group"). As described in note 3 to the unaudited Interim 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 share 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

These unaudited condensed Interim Consolidated Financial Statements for the three months ended March 31, 2017 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed Interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These condensed unaudited Interim Consolidated Financial Statements of SDX Energy Inc. were approved by the Audit Committee on May 19, 2017.

(b) Accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The policies applied are based on IFRS that are issued and outstanding as of the date that the Audit Committee approved these financial statements.

(c) Going concern

The Directors have reviewed the Company's forecast cash flows for the next twelve months from the date of publication of these Interim Consolidated Financial Statements 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 period to December 31, 2018. The Directors have made enquiries into and considered the Egyptian and Moroccan business environment, 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 these Interim Consolidated Financial Statements.

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

3. Business combination

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 value adding production and development opportunities in North Africa to complement its organic growth strategy.

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

US$ million	Fair value as at January, 27 2017
Non-current assets	
Property, plant & equipment	43.2
Current assets	
Cash and cash equivalents	3.1
Trade and other receivables	34.5
Inventory	1.2
Current tax	0.1
Non-current liabilities	
Decommissioning liability	(2.8)
Deferred income	(0.7)
Current liabilities	
Trade and other payables	(19.4)
Decommissioning liability	(1.2)
Deferred income	(0.4)
Total identifiable net assets at fair value	**57.6**
Total consideration	**(28.1)**
Excess of fair value over cost (bargain purchase)	**29.5**

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$29.5 million has been recognised in the Interim Consolidated Statement of Comprehensive Income for the three months to March 31, 2017. A provision of US$1.5 million has been recognised against certain aged receivables. Management has further considered the recoverability of the trade receivables balance alongside confirmations received from EGPC and concession operators of amounts to be settled, as well as forecast uses of EGP in operations, and do not consider it necessary to apply discounting. The trade receivables balance and any updates to the conclusion over discounting will be monitored over the coming months. A further US$0.5 million has been accrued for additional liabilities acquired.

COEL and COML contributed US$2.7 million revenue and US$0.2 million net income and US$2.1 million revenue and US$0.1 million net loss respectively to the Interim Consolidated Financial Statements for period to March 31, 2017.

Notes to the Interim Consolidated Financial Statements

for the three months ended March 31, 2017 and 2016

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

4. 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.

5. Financial risk management

(a) Credit risk

Trade and other receivables

As a result of the acquisition of Circle Oil plc on January 27, 2017, US$34.5m of Trade and other receivables were added to SDX's Trade and other receivables upon completion of the transaction, and this is the reason for the significant increase in these balances as at March 31, 2017.

Subsequent the above, all of the Company's operations were conducted in Egypt and Morocco. 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 against invoiced sales has been recorded as at March 31, 2017 and December 31, 2016. Receivables have not been discounted.

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

	Carrying amount	
$000's	**March 31 2017**	March 31 2016
Current		
Government of Egypt controlled corporations	**31,815**	7,745
Government of Morocco controlled corporations	**4,533**	-
Third party gas customers	**4,781**	-
Joint venture partners	**-**	578
Other	**1,152**	1,140
Total trade and other receivables	**42,281**	9,463

US$31.8 million of current receivables related to oil, gas and NGL sales and production service fees which are due from EGPC (December 31, 2016: US$7.7 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$29.4 million for NW Gemsa (2016: US$3.4 million) and US$2.0 million for Block – H Meseda (2016: US$2.3 million), in the normal course of operations. The US$0.4 million of Shukheir Marine oil invoices (2016: US$2.0 million), which are pledged against the Company's obligations under its South Disouq work program, were collected during Q2 2017 as the South Disouq work programme is now complete.

US$4.5 million is owed by Office National Hydrocarbures et des Mines ("ONHYM"), a government of Morocco controlled corporation, and relates to ONHYM's share of well completion, pipeline construction and production costs outstanding.

US$4.8 million is owing from third party gas customers in Morocco and is expected to be collected within agreed credit terms.

Subsequent to March 31, 2017, the Company collected US$3.4 million of trade receivables from those that were outstanding at March 31, 2017; US$0.2 million for NW Gemsa representing October 2016 crude oil sales invoices, US$1.2 million for Meseda representing January and February 2017 production service fees, US$0.4 million of the rolling South Disouq production guarantee referred to above and US$1.6 million from third party gas customers in Morocco.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. At March 31, 2017, no amounts were receivable from joint venture partners (2016: South Disouq - US$0.6 million).

The other receivables of US$1.2 million consist of US$0.4 million related to prepayments, US$0.2 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US$0.6 million for other items.

As at March 31, 2017 and December 31, 2016, the Company's trade and other receivables are aged as follows:

	Carrying amount	
$000's	**March 31 2017**	March 31 2016
Current		
Current (less than 90 days)	**22,837**	6,863
Past due (more than 90 days)	**19,444**	2,600
Total - current	**42,281**	9,463

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 increased by US$16.8 million when compared to December 31, 2016. This increase is primarily due to the acquired Circle NW Gemsa and Morocco receivables, which had a significantly more aged profile than those previously managed by the Company, partly offset by the collection of US$1.6 million of the Shukheir Marine receivables as explained 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.

(b) 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$"). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities, primarily on exchange fluctuations between the Egyptian Pound ("EGP") and the US$, the Moroccan Dirham ("MAD") and the US$, and Sterling ("GBP") and the US$. The majority of capital expenditures are incurred in US$, EGP and MAD, and oil and service fee revenues are received in US$, EGP and MAD. The Company is able to utilize EGP and MAD to fund its Egyptian and Moroccan office general and administrative expenses and to part-pay cash requirements for both capital and operating expenditure, therefore reducing the Company's exposure to foreign exchange risk during the period.

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

	Total per FS(1)	**US$**	**EGP**	**GBP**	**MAD**	**Other**
As at December 31, 2016				**US$ Equivalent**		
Cash and cash equivalents	21,052	11,838	2,751	1,838	4,102	523
Trade and other receivables	42,281	32,263	15	676	9,314	13
Trade and other payables	(23,903)	(10,640)	(8,886)	(980)	(3,293)	(104)
Current income taxes	(551)	-	(551)	-	-	-
Balance sheet exposure	**38,879**	**33,461**	**(6,671)**	**1,534**	**10,123**	**432**

(1) denotes Financial Statements

The average exchange rates during the three months ended March 31, 2017 and 2016 were 1 US$ equals:

Average: January 1, 2017 to March 31, 2017

	USD/EGP	USD/GBP	USD/MAD
Period average	17.7806	0.8074	10.0542

Average: January 1, 2016 to March 31, 2016

	USD/EGP	USD/GBP	USD/MAD
Period average	7.9778	0.6981	9.8244

The exchange rates as at March 31, 2017 and 2016 were 1 US$ equals:

Period end: March 31, 2017

	USD/EGP	USD/GBP	USD/MAD
March 31, 2017	18.2177	0.8008	10.0195

Period end: March 31, 2016

	USD/EGP	USD/GBP	USD/MAD
March 31, 2016	8.8576	0.6959	9.6841

Notes to the Interim Consolidated Financial Statements

for the three months ended March 31, 2017 and 2016

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

6. Trade and other receivables

	Carrying amount	
$000's	**March 31 2017**	December 31 2016
Trade receivables	**41,129**	7,745
Other receivables	**1,152**	1,718
Total	**42,281**	9,463

For discussion of these balances, see note 5 (a).

7. Property, plant and equipment

$000's	**Oil and gas properties**	**Furniture and fixtures**	**Total**
Cost:			
Balance at December 31, 2015	**30,663**	**120**	**30,783**
Additions	1,705	68	1,773
Balance at December 31, 2016	**32,368**	**188**	**32,556**
Additions	462	60	522
Acquisitions	43,232	-	43,232
Balance at March 31, 2017	**76,062**	**248**	**76,310**
Accumulated depletion, depreciation, amortization and impairment:			
Balance at December 31, 2015	**(12,334)**	**(48)**	**(12,382)**
Depletion, depreciation and amortization for the year	(3,225)	(41)	(3,266)
Impairment charge	(4,303)	-	(4,303)
Balance at December 31, 2016	**(19,862)**	**(89)**	**(19,951)**
Depletion, depreciation and amortization for the period	(3,519)	(3)	(3,522)
Balance at March 31, 2017	**(23,381)**	**(92)**	**(23,473)**
NBV Property, plant and equipment as at December 31, 2016	12,506	99	12,605
NBV Property, plant and equipment as at March 31, 2017	**52,681**	**156**	**52,837**

During the period ended March 31, 2017, the PP&E additions of US$0.5 million predominantly related to well workovers in the Block-H Meseda concession and the refurbishment of the Rabat corporate office in Morocco. The difference between the US$0.5 million disclosed above and the US$0.1 million Property, plant and equipment expenditure in the Consolidated Statement of Cash Flows is due to the fact that c.US$0.4 million of the well workover costs in the Block-H Meseda concession are part of Trade and other payables as at March 31, 2017.

The Company has also recorded, on the face of the table above, the assets acquired from Circle Oil plc, at cost (fair value) of US$43.2 million.

8. Intangible exploration and evaluation assets

$000's	
Balance at December 31, 2015	**23,473**
Additions	11,566
Exploration and evaluation expense	(24,416)
Balance at December 31, 2016	**10,623**
Additions	289
Balance at March 31, 2017	**10,912**

During the three months ended March 31, 2017, E&E additions consisted of US$0.2 million at South Disouq for seismic interpretation on the SD-1X well and US$0.1 million in Morocco in respect of annual training fees for the exploration concessions.

During the prior year, the Company completed its activities in Cameroon and made a full provision against the capitalised exploration cost of US$24.4 million.

9. 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 periods ended March 31, 2017 and December 31, 2016.

The following table summarizes the changes in investments for the periods ended March 31, 2017 and December 31, 2016

$000's	**March 31 2017**	December 31 2016
Investments, beginning of period	**2,503**	2,106
Dividends received	**-**	(825)
Share of operating income	**374**	1,222
Investments, end of period	**2,877**	2,503

The following table summarizes the Company's 50% interest in the assets, liabilities, revenue and operating income of Brentford as at March 31, 2017 and March 31 December 2016:

SDX Energy share (50%) of Brentford:	**March 31 2017**	December 31 2016
Total assets	**2,779**	2,405
Total liabilities	**277**	3
Revenue	**407**	1,656
Net income	**374**	1,222

During the period ended March 31, 2017 and the year ended December 31, 2016 50% of Brentford's revenue was earned from fees charged to the Company.

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

10. Trade and other payables

	Carrying amount	
$000's	March 31 2017	December 31 2016
Current		
Trade payables	572	663
Accruals	1,298	684
Joint venture partners	20,858	1,743
Other payables	1,175	584
Total	23,903	3,674

As a result of the acquisition of Circle Oil plc on January 27, 2017, US$19.4 million of Trade and other payables were added to SDX's Trade and other payables upon completion of the transaction, and this is the reason for the significant increase in these balances as at March 31, 2017.

As at December 31, 2016, trade payables included US$0.3 million of NGL and gas transportation and treatment costs associated with the sales of these products recognized during Q4 2016. As this has been paid during Q1 2017, the partial offset increase in the balance to March 31, 2017 reflects the increased size of the Company post-acquisition.

Accruals include amounts for products and services received which have yet to be invoiced. The increase period on period reflects the additional liabilities referred to in note 3 above.

Joint venture partners comprise partner current accounts of US$15.4 million for NW Gemsa (2016: US$1.2 million), US$0.9 million Block-H Meseda (2016: US$0.5 million), US$0.5 million South Disouq (2016: US$nil) and US$4.1 million for the Morocco concessions (2016: US$nil). US$3.4 million of the Moroccan balance relates to amounts owing to ONHYM. These amounts are currently being withheld until an agreement has been reached relating to the settlement of the US$4.5 million Receivable owed by ONHYM discussed at Note 5 (a). The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Other payables of US$1.2 million comprise an estimated liability of US$0.5 million related to the relinquishment of the Shukheir Marine concession (2016: US$0.5 million), post-acquisition restructuring costs of US$0.6 million (2016: US$nil) and sundry creditors of US$0.1 million (2016: US$0.1 million).

The difference between the increase of US$20.2 million in trade and other payables in the Consolidated Balance Sheets as at March 31, 2017 and December 31, 2016 and the cash inflow relating to the implied increase of US$0.5 million as reflected in the Consolidated Statement of Cash Flows relates primarily to the introduction of US$19.4 million of Trade and Other Payables from Circle Oil plc which is included in the cashflow statements as part of the US$29.5 million Gain on acquisition and the US$28.1 million Acquisition of subsidiaries.

11. Deferred income

Deferred income relates to an advance receipt for gas sales from a customer in Morocco. This payment was used to fund the tie-in of the customer's manufacturing premises to the Company's operated gas pipeline. The amount will be credited to the Consolidated Statement of Comprehensive Income under the terms of an agreement entered into with the customer under which the selling price of gas is discounted by 5% until the advance payment is fully recouped, expected to be during the year ended December 31, 2018.

12. Decommissioning liability

Upon acquisition of Circle Oil's Moroccan assets, the Company assumed responsibility for the decommissioning of these assets.

As at March 31, 2017 the total future undiscounted cash flows amounted to US$4.4 million, to be incurred between the years 2017 and 2020 and the liability was discounted using a risk-free rate of 3.0%. The discounted liability of US$4.0 million is recognized in the Interim Consolidated Balance Sheet as set out below. Expenditure of US$1.2 million is expected to be incurred within the next 12 months.

	Carrying amount	
$000's	March 31 2017	December 31 2016
Decommissioning liability, beginning of period	-	-
Changes in estimate	-	-
Liabilities acquired through business combination	3,968	-
Accretion	15	-
Decommissioning liability, end of period	3,983	-
Of which:		
Current	1,200	-
Non-current	2,783	-

No decommissioning liabilities are recorded in respect of the Company's Egyptian assets, under the terms of the respective concession agreements.

13. 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

	March 31, 2017		December 31, 2016	
	Number of Shares ($000's)	**Stated Value ($000's)**	Number of Shares ($000's)	Stated Value ($000's)
Balance, beginning of period	**79,844**	**40,275**	37,642	30,148
Private placing of shares(less share issue costs)	**107,056**	**38,710**	42,202	10,127
Balance, end of the period	**186,900**	**78,985**	79,844	40,275
Weighted average shares outstanding	**155,973**		71,509	

(c) Common Share Warrants issued

	March 31, 2017		December 31, 2016	
	Number of Shares ($000's)	**Stated Value ($000's)**	Number of Shares ($000's)	Stated Value ($000's)
Balance, beginning of period	-	-	611	99
Expiry of warrants	-	-	(611)	(99)
Balance, end of period	-	-	-	-

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

14. 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 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. No options have been issued or cancelled during the period ended March 31, 2017.

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

	Number of Options (000's)	Weighted average exercise price (CDN$)
Outstanding January 1, 2016	**2,650**	**0.63**
Cancelled during the year	(395)	0.63
Issued during the year	190	0.36
Outstanding December 31, 2016	**2,445**	**0.61**
Exercisable December 31, 2016	**1,567**	**0.62**
Outstanding March 31, 2017	**2,445**	**0.61**
Exercisable March 31, 2017	**1,567**	**0.62**

Notes to the Interim Consolidated Financial Statements

for the three months ended March 31, 2017 and 2016

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

14. Stock-based compensation (continued)

The exercise price of the outstanding options is as follows:

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

Key assumptions relating the options issued in 2016 and 2015 are as follows:

	2016	2015
Fair value at grant date (CDN)	$0.29	$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

15. Revenue, net of royalties

	Three months ended March 31	
$000's	2017	2016
Oil revenue	6,549	1,583
Royalties	(2,811)	(679)
Oil revenue, net of royalties	3,738	904
Gas revenue	2,410	-
Royalties	(104)	-
Gas revenue, net of royalties	2,306	-
NGL revenue	169	-
Royalties	(73)	-
NGL revenue, net of royalties	96	-
Production service fees	1,996	1,206
Total net revenue before tax	8,136	2,110

With the exception of Moroccan gas sales, the oil, gas and NGLs revenue and royalties relate to the NW Gemsa concession, which is governed by an Egyptian PSC. The royalties are those attributable to the government take in accordance with the fiscal terms of the PSC. No royalties are yet payable in respect of Moroccan gas.

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 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. Sales of these product have continued to be recognized for the period ended 31 March, 2017, however the comparative period has not been restated as the dispute had not been resolved at that time.

The production service fees relate to Block-H Meseda, which is governed by an Egyptian PSA.

16. Direct operating expense

	Three months ended March 31	
$000's	2017	2016
N W Gemsa	1,139	340
Meseda - Block H	696	651
Morocco - Sebou	176	-
Other	37	8
Total direct operating expense	2,048	999

17. General and administration expenses

$000's	Three months ended March 31 2017	2016
Wages and employee costs	**1,696**	553
Consultants - inc. PR/IR	**100**	46
Legal fees	**72**	34
Audit, tax and accounting services	**62**	60
Public company fees	**104**	54
Travel	**89**	43
Office expenses	**202**	147
IT expenses	**111**	46
Service recharges	**(255)**	(123)
Ongoing general and administrative expenses	**2,181**	860
Transaction costs	**2,218**	-
Total - net G&A	**4,399**	860

18. Income tax

$000's	Three months ended March 31 2017	2016
N W Gemsa	**754**	174
Meseda - Block H	**230**	32
Morocco - Sebou	**-**	-
Total current taxes	**984**	206

Pursuant to the terms of the Company's PSCs, the corporate tax liability of the joint venture partners is paid by the government controlled corporations ("Corporations") who participate in these PSCs, out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes however, the corporate taxes paid by the Corporations are treated as a benefit earned by the Company, with the amount being "grossed up" and included in net oil revenues and the income tax expense of the Company.

The Company also has a PSA related to Block-H Meseda with legal title residing with Madison Egypt Limited ("Madison Egypt"), 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 Madison Egypt.

The current income tax expense in the Interim Consolidated Statement of Comprehensive Income for the three months ended March 31, 2017 relates to income tax on North West Gemsa's PSC and income tax relating to the Company's PSA in Block-H Meseda.

The current income tax liability of US$0.6 million in the Consolidated Balance Sheet relates to the Company's PSA in Block H Meseda.

The Company's Moroccan operations benefit from a 10 year corporation tax holiday from first production and no taxation is due on Moroccan profits as at March 31, 2017.

19. Income/(loss) per share

$000's	Three months ended March 31 2017	2016
Net income/(loss) before other comprehensive income for the period	**26,868**	(883)
Weighted average number of shares (000's)		
Basic	**155,973**	37,642
Diluted	**157,540**	37,642
Per share amount		
Basic	**$0.172**	$(0.023)
Diluted	**$0.171**	$(0.023)

Basic income/(loss) 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 March 31, 2016 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.

Notes to the Interim Consolidated Financial Statements
for the three months ended March 31, 2017 and 2016

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

20. Segmental reporting

Following the acquisition of the Egyptian and Moroccan assets of Circle Oil plc, the Company's operations are managed on a geographic basis, by country. Prior year comparative figures have been updated to reflect the new basis of reporting.

The Company is engaged in one business of upstream oil and gas exploration and production. The executive directors are the Company's chief operating decision maker within the meaning of IFRS 8.

	Three months ended March 31, 2017				Three months ended March 31, 2016 (restated)				
	Egypt	**Morocco**	**Unallocated[1]**	**Total**	Egypt	Morocco	Cameroon[2]	Unallocated[1]	Total
Revenue	**5,926**	**2,210**	**-**	**8,136**	2,110	-	-	-	2,110
Operating costs	**(1,872)**	**(176)**	**-**	**(2,048)**	(999)	-	-	-	(999)
Netback (pre tax)	**4,054**	**2,034**	**-**	**6,088**	1,111	-		-	1,111
Exploration and evaluation expense	**-**	**-**	**(73)**	**(73)**	-	-	-	-	-
Depletion, depreciation and amortization	**(1,826)**	**(1,693)**	**(3)**	**(3,522)**	(805)	-	-	(12)	(817)
Stock based compensation	**-**	**-**	**(43)**	**(43)**	-	-	-	(94)	(94)
Equity in income of associate	**374**	**-**	**-**	**374**	347	-	-	-	347
General and administrative expenses	**(316)**	**(453)**	**(3,630)**	**(4,399)**	(218)	-	-	(642)	(860)
Operating income/(loss)	**2,286**	**(112)**	**(3,749)**	**(1,575)**	435	-	-	(748)	(313)

(1) Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment.

(2) As described in note 8, in 2017 the Company no longer operates in Cameroon.

The segment assets and liabilities as at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017				December 31, 2016 (restated)				
	Egypt	**Morocco**	**Unallocated[1]**	**Total**	Egypt	Morocco	Cameroon[2]	Unallocated[1]	Total
Segment assets	**81,444**	**39,467**	**11,884**	**132,794**	37,696	-	-	3,921	41,617
Segment liabilities	**(17,504)**	**(8,935)**	**(3,391)**	**(29,830)**	(2,926)	-	-	(1,426)	(4,353)

(1) Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment.

(2) As described in note 8, in 2017 the Company no longer operates in Cameroon.

21. 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 Interim 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).

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

$000's	**March 31 2017**	December 31 2016
Less than one year	**1,340**	1,340
Between one and five years	**2,933**	2,933
Total	**4,273**	4,273

The Company has lease commitments for its office premises and vehicles in Calgary, Rabat 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	**March 31 2017**	December 31 2016
Less than one year	**578**	318
Between one and five years	**825**	499
Total	**1,403**	817

Subsequent to the end of the period, the Company announced that extensions had been awarded to its Lalla Mimouna exploration permits and Sebou producing concessions in Morocco. The Company has committed to the drilling of two exploration wells at Lalla Mimouna and three exploration wells at Sebou, the total cost of which is estimated at US$7.5 million.

There are no contingencies as at March 31, 2017.

22. Post balance sheet events

On April 18, 2017 and May 5, 2017, the Company announced the results of the SD-1X well. The well logged 82 feet of net pay in the Abu-Madi formation, which was divided among three separate reservoir packages. Average porosity in the net pay section was 25% with gas saturations calculated between 50-75%. A series of pressure measurements were taken and showed the reservoir to have initial pressures of approximately 3100-3200 psi, with measured mobilities greater than one Darcy. The well was subsequently drilled to a final total depth of 11,068 feet with hydrocarbons being encountered in the deeper intervals of the well indicating a working petroleum system within this section. The well also confirmed the presence of deeper, good quality reservoir intervals, albeit there was an insufficient quantity of hydrocarbons to justify completing this interval. The well will now be completed in the Abu-Madi and a detailed testing program will be undertaken on the gas discovery after the rig has been moved off location.

On April 25, 2017, the Company announced the renewal of the Sebou exploration permit for eight years after committing to drill three exploration wells in the first four years. Two of these exploration wells are included in the H2 2017 drilling program. SDX also received confirmation of extensions to the four producing concessions. The Company also received confirmation that the Lalla Mimouna permit was extended until March 2018.