Financial Statements

2016 Q2 Interim Report

Interim Consolidated Balance Sheet (Unaudited)

(thousands of United States dollars)	Note	As at June 30 2016	As at December 31 2015
Assets			
Cash and cash equivalents	5	**6,949**	8,170
Trade and other receivables	6	**8,480**	6,678
Inventory		**1,188**	1,188
Current assets		**16,617**	16,036
Investments	9	**2,818**	2,106
Property, plant and equipment	7	**17,731**	18,401
Intangible exploration and evaluation assets	8	**10,065**	23,473
Non-current assets		**30,614**	43,980
Total Assets		**47,231**	60,016
Liabilities			
Trade and other payables	10	**7,743**	3,556
Current income taxes	17	**642**	928
Current liabilities		**8,385**	4,484
Deferred income taxes		**286**	286
Non-current liabilities		**286**	286
Total Liabilities		**8,671**	4,770
Equity			
Share capital	11	**39,315**	30,148
Warrants	11	**99**	99
Contributed surplus		**5,369**	5,175
Other comprehensive loss		**(1,154)**	(1,154)
Retained Earnings		**(5,069)**	20,978
Equity		**38,560**	55,246
Equity and Liabilities		**47,231**	60,016

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

Approved on behalf of the Board of Directors

Paul Welch
Chief Executive Officer

Mark Reid
Chief Financial Officer

Interim Consolidated Statement of Comprehensive (Loss)/Income (Unaudited)

(thousands of United States dollars, except per share data)	Note	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Revenue, net of royalties	13	**2,521**	2,900	**4,631**	5,715
Revenue		**2,521**	2,900	**4,631**	5,715
Direct operating expense	14	**1,290**	1,004	**2,289**	1,675
Exploration and evaluation expense	8	**24,883**	-	**24,883**	-
Depletion, depreciation and amortization	7	**845**	436	**1,662**	887
Stock based compensation	12	**100**	146	**194**	323
Equity in income of associate	9	**(365)**	(357)	**(712)**	(637)
General and administrative expenses	15	**912**	639	**1,772**	1,173
Operating (Loss)/Income		**(25,144)**	1,032	**(25,457)**	2,294
Net finance expense/(income)	16	**(267)**	(227)	**97**	(436)
(Loss)/Income before income taxes		**(24,877)**	1,259	**(25,554)**	2,730
Current income tax expense	17	**287**	264	**493**	766
Deferred income tax (credit)/expense		**-**	(72)	**-**	(89)
Total Current and Deferred income tax expense		**287**	192	**493**	677
Net (Loss)/Income		**(25,164)**	1,067	**(26,047)**	2,053
Other comprehensive loss/(income)					
Foreign exchange		**-**	(44)	**-**	165
Total comprehensive (loss)/income for the period		**(25,164)**	1,111	**(26,047)**	1,888
Net (loss)/income per share					
Basic	18	**$(0.455)**	$0.019	**$(0.560)**	$0.036
Diluted	18	**$(0.455)**	$0.017	**$(0.560)**	$0.032

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

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	Six months ended June 30 2016	2015
Share Capital		
Balance, beginning of period	**30,148**	24,512
Private placement - secondary listing on the London Stock Exchange AIM	**9,968**	-
Share issue costs	**(801)**	-
Balance, end of period	**39,315**	24,512
Warrants		
Balance, beginning of period	**99**	99
Balance, end of period	**99**	99
Contributed Surplus		
Balance, beginning of period	**5,175**	4,414
Share based payments for the period	**194**	323
Balance, end of period	**5,369**	4,737
Accumulated Other Comprehensive Loss		
Balance, beginning of period	**(1,154)**	(507)
Foreign currency translation adjustment for the period	**-**	(165)
Balance, end of period	**(1,154)**	(672)
Retained Earnings		
Balance, beginning of period	**20,978**	10,931
Net (Loss)/Income for the period	**(26,047)**	2,053
Balance, end of period	**(5,069)**	12,984
Total Equity	**38,560**	41,660

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

Interim Consolidated Statement of Cash Flows (Unaudited)

		Three months ended June 30		Six months ended June 30	
(thousands of United States dollars)	Note	**2016**	2015	**2016**	2015
Cash flows (used in)/from operating activities					
Income before income taxes		**(24,877)**	1,259	**(25,554)**	2,730
Adjustments for:					
Depletion, depreciation and amortization	7	**845**	436	**1,662**	887
Exploration expense		**24,883**	-	**24,883**	-
Finance costs	16	**7**	18	**83**	67
Stock-based compensation	12	**100**	146	**194**	323
Equity in income of associate	9	**(365)**	(357)	**(712)**	(637)
Operating cash flow before working capital movements		**593**	1,502	**556**	3,370
(Increase)/decrease in trade and other receivables		**(2,762)**	(928)	**(1,785)**	12
Increase/(decrease) in trade and other payables		**1,596**	(443)	**2,449**	(1,379)
Cash (used in)/generated from operating activities		**(573)**	131	**1,220**	2,003
Income taxes paid		**(383)**	(4,096)	**(383)**	(4,096)
Net cash (used in)/from operating activities		**(956)**	(3,965)	**837**	(2,093)
Cash flows used in investing activities:					
Property, plant and equipment expenditures	7	**(15)**	(821)	**(15)**	(959)
Exploration and evaluation expenditures	8	**(10,019)**	(784)	**(10,937)**	(959)
Dividends received	12	**-**	966	**-**	966
Net cash used in investing activities		**(10,034)**	(639)	**(10,952)**	(952)
Cash flows from/(used in) financing activities:					
Repayment of debentures		**-**	(2,052)	**-**	(2,052)
Private Placement on London Stock Exchange AIM		**9,167**	-	**9,167**	-
Finance costs paid		**(8)**	(15)	**(101)**	(63)
Net cash from/(used in) financing activities		**9,159**	(2,067)	**9,066**	(2,115)
Change in cash and cash equivalents		**(1,831)**	(6,671)	**(1,049)**	(5,160)
Effect of foreign exchange on cash and cash equivalents		**109**	77	**(172)**	(313)
Cash and cash equivalents, beginning of period		**8,671**	19,056	**8,170**	17,935
Cash and cash equivalents, end of period		**6,949**	12,462	**6,949**	12,462

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

Notes to the Interim Consolidated Financial Statements (Unaudited)
For the three and six months ended June 30, 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"), 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 interim unaudited consolidated financial statements of the Company as at and for the three and six months ended June 30, 2016 and 2015 comprise the Company and its wholly owned subsidiaries and associates. The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others. These interim unaudited consolidated financial statements reflect only the Company's proportionate interest in such activities. The Company's principle properties are located in the Arab Republic of Egypt and the Republic of Cameroon.

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

Note 2. Basis of preparation and accounting policies

Statement of compliance

These condensed interim unaudited consolidated financial statements for the three and six months ended June 30, 2016 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed interim unaudited consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed interim unaudited Consolidated Financial Statements of SDX Energy Inc. were approved by the Audit Committee on August 18, 2016.

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.

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 unaudited Consolidated Financial Statements and through until December 31, 2017. The capital expenditure and operating costs used in these forecast cash flows are based on the Company's Board approved 2016 corporate budget which reflects approved operating budgets for each of its Joint Ventures and an estimate of 2016 SDX corporate general and administrative expenses. The Company's forecast cash flows also reflect its best estimate of operational and corporate expenditure, including corporate general and administrative costs for the year to December 31, 2017. The Directors have made enquiries into and considered the Egyptian business environment, future expectations regarding commodity price risk and, in particular, oil price risk given the current low price of Brent and WTI Crude oil prices.

On the basis of the budgeted cash flows, and the additional Placing proceeds of US$11m less c. US$1m of expenses received on May 20 and July 25, 2016, the directors are of the opinion that the Company is well funded for the period under review. As such, these interim unaudited Consolidated Financial Statements continue to be prepared under the going concern basis of accounting, using the historical cost convention, except for financial instruments which are measured at fair value.

Note 3. 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 interim unaudited consolidated balance sheet approximate to their fair value due to the short term nature of those instruments.

Stock options

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

Note 4. 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 interim unaudited consolidated financial statements.

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

(b) Credit risk

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

	Carrying amount	
	June 30	December 31
$000's	**2016**	2015
Cash and equivalents	**6,949**	8,170
Trade and other receivables	**8,480**	6,678
Total	**15,429**	14,848

Trade and other receivables

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

The Company does not anticipate any default as it expects continued payment from customers. As such no provision for doubtful accounts has been recorded as at June 30, 2016 and December 31, 2015.

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

	Carrying amount	
	June 30	December 31
$000's	**2016**	2015
Current		
Government of Egypt controlled corporations	**5,604**	5,018
Joint Venture Partners	**1,921**	862
Other	**955**	798
Total trade and other receivables	**8,480**	6,678

Current receivables of US$5.6 million relate to oil sales and production service fees which are due from EGPC (December 31, 2015: US$5.0 million), a Government of Egypt controlled corporation.

Note 4. Financial risk management (continued)

(b) Credit risk (continued)

Trade and other receivables (continued)

Receivables in respect of oil sales and service fees are normally collected in one to two months following production. The Company expects to collect outstanding receivables of US$1.2 million for NW Gemsa and US$1.4 million for Block – H Meseda, in the normal course of operations; the remaining US$3.0 million being the pledged Shukheir Marine receivables. The Shukheir Marine trade receivables of US$3.0 million relate to invoices withheld as a rolling production guarantee for the work program of the South Disouq concession. Please see Note 6 for further details.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. Joint venture partner receivables of US$1.9 million (2015 - US$0.9 million) relate to the Bakassi West, Cameroon concession (US$0.5 million) and the South Disouq concession (US$1.4 million).

The other receivables of US$1.0 million consist of US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.4 million related to prepayments, US$0.2 million for Goods and Services Tax ("GST")/Value Added Tax ("VAT") and US$0.2 million for other items.

As at June 30, 2016 and December 31, 2015, the Company's trade and other receivables, is aged as follows:

	Carrying amount	
$000's	**June 30 2016**	December 31 2015
Current		
Current (less than 90 days)	**4,691**	3,364
Past due (more than 90 days)	**3,789**	3,314
Total - current	**8,480**	6,678

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$0.5 million when compared to December 31, 2015. This increase is due to receivables recognized in Q4 2015 in relation to un-invoiced Gas and LPG revenues in NW Gemsa. These balances are expected to be recovered during Q3 2016 when they will be invoiced to EGPC.

Subsequent to June 30, 2016 the Company collected US$1.1 million of trade receivables from a government of Egypt controlled corporation for NW Gemsa (US$0.7 million) and Meseda (US$0.4 million) and US$1.4 million of other receivables from its joint venture partner in the South Disouq concession. All receipts reduced the current ageing (less than 90 days) balance above of US$4.7 million to US$2.2 million.

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, where practical in its countries of operation, by banks with A or AA credit ratings, therefore management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

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

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political unrest. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on projects to further manage capital expenditure and has a Board of Directors' 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 June 30, 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$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between EGP and US$, GBP and US$ and CAD$ and US$. The majority of capital expenditures are incurred in US$ and EGP and oil and service fee revenues are received in both US$ and EGP. The Company is able to utilize EGP to fund its Egyptian office general and administrative expenses and to part-pay cash calls for both capital and operating expenditure, therefore reducing the Company's exposure to foreign exchange risk during the period.

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

$000's	Total per FS [1]	US$	EGP	EUR	CAD	GBP
As at June 30, 2016	US$ Equivalent					
Cash and cash equivalents	6,949	4,222	1,527	41	294	865
Trade and other receivables	8,480	7,963	39	13	65	400
Trade and other payables	(7,743)	(6,340)	(1,129)	(26)	(248)	-
Current income taxes	(642)	-	(642)	-	-	-
Balance sheet exposure	7,044	5,845	(205)	28	111	1,265

(1) denotes Financial Statements

The average exchange rates during the three months ended June 30, 2016 and 2015 were 1 US$ equals:

Average: April 1, 2016 to June 30, 2016

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period average	1.2889	0.6972	0.8854	8.8521

Average: April 1, 2015 to June 30, 2015

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period average	1.2297	0.6532	0.9044	7.6025

The average exchange rates during the six months ended June 30, 2016 and 2015 were 1 US$ equals:

Average: January 1, 2016 to June 30, 2016

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period average	1.3310	0.6976	0.8960	8.4150

Period end: January 1, 2015 to June 30, 2015

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period average	1.2340	0.6564	0.8958	7.5389

The period end exchange rates as at June 30, 2016 and 2015 were 1 US$ equals:

Period end: June 30, 2016

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
June 30, 2016	1.2980	0.7465	0.9013	8.8364

Period end: June 30, 2015

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
June 30, 2015	1.2354	0.6361	0.9012	7.6474

(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 June 30, 2016 the Company did not have any outstanding derivatives in place.

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

Note 4. Financial risk management (continued)

(g) Capital management

The Company defines and computes its capital as follows:

	Carrying amount	
	June 30	December 31
$000's	**2016**	2015
Equity	**38,560**	55,246
Working capital [1]	**(8,232)**	(11,552)
Total capital	**30,328**	43,694

(1) Working capial is defined as current asets less current liabilities.

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

Note 5. Cash and cash equivalents

	Carrying amount	
	June 30	December 31
$000's	**2016**	2015
Bank balances	**6,949**	8,170
Cash and cash equvalents	**6,949**	8,170

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

Note 6. Trade and other receivables

	Carrying amount	
	June 30	December 31
$000's	**2016**	2015
Trade receivables	**5,604**	5,018
Other receivables	**2,876**	1,660
Total	**8,480**	6,678

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

Trade receivables of US$5.6 million comprise US$1.2 million of crude oil sales invoices for the NW Gemsa concession, US$1.4 million of service fee invoices for Block-H Meseda and US$3.0 million of pledged Shukheir Marine oil invoices.

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

Other receivables of US$2.9 million consist of US$1.9 million for joint venture partner current accounts and US$1.0 million of other.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. Joint venture partner receivables of US$1.9 million (2015 - US$0.9 million) relate to the Bakassi West, Cameroon concession (US$0.5 million) and the South Disouq concession (US$1.4 million).

The other receivables of US$1.0 million consist of US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.4 million related to prepayments, US$0.2 million for Goods and Services Tax ("GST")/Value Added Tax ("VAT") and US$0.2 million for other items.

Subsequent to June 30, 2016 the Company collected US$1.1 million of trade receivables from a government of Egypt controlled corporation for NW Gemsa (US$0.7 million) and Meseda (US$0.4 million) and US$1.4 million of other receivables from its joint venture partner in the South Disouq concession.

Note 7. Property, plant and equipment

$000's	Oil interests	Furniture and fixtures	Total
Cost:			
Balance at December 31, 2014	**12,824**	**174**	**12,998**
Additions	1,375	17	1,392
Acquisitions	16,679	68	16,747
Foreign currency revaluation	-	(32)	(32)
Decommissioning provision	(208)	-	(208)
Disposals	-	(8)	(8)
Assets scrapped	(7)	(99)	(106)
Balance at December 31, 2015	**30,663**	**120**	**30,783**
Additions	977	15	992
Balance at June 30, 2016	**31,640**	**135**	**31,775**
Accumulated depletion and depreciation:			
Balance at December 31, 2014	**(3,478)**	**(128)**	**(3,606)**
Depletion and depreciation for the year	(2,014)	(43)	(2,057)
Foreign currency revaluation	-	28	28
Impairment for the year	(6,842)	-	(6,842)
Assets scrapped	-	95	95
Balance at December 31, 2015	**(12,334)**	**(48)**	**(12,382)**
Depletion and depreciation for the period to June 30, 2016	(1,635)	(27)	(1,662)
Balance at June 30, 2016	**(13,969)**	**(75)**	**(14,044)**
NBV Property, plant and equipment as at December 31, 2015	**18,329**	**72**	**18,401**
NBV Property, plant and equipment as at June 30, 2016	**17,671**	**60**	**17,731**

During the period ended June 30, 2016 the Company had PP&E additions of US$1.0 million; which related to the NW Gemsa concession.

The NW Gemsa additions were for the drilling of Al Amir SE-23 (US$0.2 million) and Al Amir SE-24 (US$0.3 million), well work over program (US$0.1 million) and the recharge by the operator of indirect costs incurred on PP&E projects (US$0.4 million).

At June 30, 2016 for the purposes of the depletion calculation, US$2.4 million (December 31, 2015 – US$4.1 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Note 8. Intangible exploration and evaluation assets

$000's	
Balance at December 31, 2014	**16,460**
Additions	3,728
Acquisitions	3,267
Unsuccessful well effort	18
Balance at December 31, 2015	**23,473**
Additions	11,302
Exploration and evaluation expense	(24,710)
Balance at June 30, 2016	**10,065**

Intangible exploration and evaluation ("E&E") additions of US$11.3 million for 2016 consist of US$5.9 million in relation to the West Bakassi block in Cameroon ("West Bakassi") and US$5.4 million in relation to the South Disouq concession.

The US$5.9 million additions for West Bakassi consisted of well planning (US$0.2 million), drilling costs for the Manatee-1 exploration well (US$5.2 million), other direct costs including G&G (US$0.2 million), training and CSR costs (US$0.1 million) and general overheads (US$0.2 million).

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 a result the Company released the full exploration cost of US$24.7 million to the Income Statement for the period to June 30, 2016.

The US$5.4 million additions for South Disouq related to the 3D seismic program and consisted of the crew and equipment mobilization costs (US$0.2 million), 3D seismic costs (US$4.6 million), farmer's compensation for crop damage (US$0.1 million), 3rd party quality control (US$0.2 million), timewriting and associated operator costs (US$0.2 million) and the EGas annual training bonus (US$0.1 million).

The Company also had business development costs in the three and six months ended June 30, 2016 of US$0.2 million. These costs are recognized in the income statement as incurred and form part of the exploration and evaluation expense line shown on the face of the Statement of Comprehensive Income/(Loss) for the period.

Note 9. Investments

The Company owns a 50% equity interest in Brentford Oil Tools LLC ("Brentford"), a company that provides oilfield services and equipment rental and which is incorporated in Egypt. The Company is accounting for this investment using the equity method in accordance with IAS28 – "Investments in Associates". The investment is reviewed regularly for indicators of impairment and no impairment was identified for the period ended June 30, 2016 and the year ended December 31, 2015.

The following table summarizes the changes in investments for the period ended June 30, 2016 and the year ended December 31, 2015:

$000's	**June 30 2016**	December 31 2015
Investments, beginning of year	**2,106**	1,999
Dividends received	**-**	(917)
Share of operating income	**712**	1,024
Investments, end of year	**2,818**	2,106

The following table summarizes the Company's 50% interest in the assets, liabilities, revenue and operating income of Brentford as at and for the period ended June 30, 2016 and the year ended December 31, 2015:

SDX Energy share (50%) of Brentford:	**June 30 2016**	December 31 2015
Total assets	**2,866**	2,469
Total liabilities	**2**	316
Revenue	**781**	1,816
Net Income	**712**	1,024

During the period ended June 30, 2016 50% (December 31, 2015 – 50%) of Brentford's revenue was earned from fees charged to the Company.

Note 10. Trade and other payables

	Carrying amount	
	June 30	December 31
$000's	**2016**	2015
Current		
Trade payables	**3,623**	198
Accruals	**855**	1,284
Other payables	**3,265**	2,074
Total	**7,743**	3,556

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

Trade payables of US$3.6 million are due to the contractor responsible for the 3D seismic program in the South Disouq concession.

Accruals of US$0.9 million comprise general and administrative costs related to restructuring, audit, tax and reserve reporting fees.

Other payables of US$3.3 million comprise an estimated liability of US$1.1 million related to the relinquishment of the Shukheir Marine concession, partner current accounts of US$2.0 million for NW Gemsa (US$1.6 million) and Block-H Meseda (US$0.4 million) concessions, UK payroll taxes and deferred payroll of US$0.1 million and other of US$0.1 million.

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

Note 11. 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

The Company issued a press release on May 20, 2016 announcing its admission to trade ordinary shares on the AIM market of the London Stock Exchange ("AIM") and the successful placement and subscription of 42,201,835 shares, which included 3,910,000 conditional shares. On July 25, 2016 the 3,910,000 conditional placement shares were issued to an investor upon its approval as an insider by the TSX. Trading on AIM of these conditional shares commenced on July 28, 2016.

	June 30, 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)	**38,292**	**9,167**	-	-
Balance, end of the period	**75,934**	**39,315**	37,642	30,148
Weighted average shares outstanding	**46,527**		51,633	

(c) Common Share Warrants issued *

	June 30, 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)	-
Balance, end of year	**611**	**99**	611	99

* The warrants expired on July 27, 2016.

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

Note 12. 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.

For the three and six months ended June 30, 2016 the Company recorded non-cash stock based compensation of US$0.1 million and US$0.2 million respectively (2015 – US$0.1 million and US$0.3 million respectively).

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

	Number of Options (000's)	Weighted average exercise price (CDN$)
Outstanding January 1, 2015	**4,950**	**0.92**
Cancelled during the year	(4,950)	0.92
Issued during the year	2,650	0.63
Outstanding December 31, 2015	**2,650**	**0.63**
Exercisable December 31, 2015	**883**	**0.63**
Outstanding June 30, 2016	**2,650**	**0.63**
Exercisable June 30, 2016	**883**	**0.63**

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
$0.63	2,650,000	4.5 years	883,325	4.5 years

Note 13. Revenue, net of royalties

	Three months ended June 30		Six months ended June 30	
$000's	**2016**	2015	**2016**	2015
Oil revenue	**2,011**	-	**3,594**	-
Royalties	**(863)**	-	**(1,542)**	-
Oil revenue, net of royalties	**1,148**	-	**2,052**	-
Production service fees	**1,373**	2,900	**2,579**	5,715
Total net revenue before tax	**2,521**	2,900	**4,631**	5,715

The oil revenue and royalties relate to the NW Gemsa concession; which is governed by a Production Sharing Contract ("PSC") and the royalties are those attributable to the government take in accordance with the fiscal terms of the PSC.

The production service fees relate to Block-H Meseda, which is governed by a Production Services Agreement ("PSA").

The operator continues to be in the process of addressing contractual invoicing with EGPC in relation to gas and liquids. No revenue or sales volumes relating to gas and liquids have been recognized for the three and six months ended June 30, 2016; pending issuance of invoices.

14. Direct Operating expenses

$000's	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
NW Gemsa	**440**	-	**780**	-
Block-H Meseda	**835**	1,004	**1,486**	1,675
Other	**15**	-	**23**	-
Direct Operating Expenses	**1,290**	1,004	**2,289**	1,675

Direct operating costs ("opex") for the three and six months ended June 30, 2016 were US$1.3 million and US$2.3 million respectively compared to US$1.0 million and US$1.7 million for the prior periods of 2015. The comparative periods of 2015 represent the costs of Madison Petrogas Ltd only pre-combination whereas the 2016 costs cover the enlarged group. On a like for like basis 2016 opex for Block-H Meseda is below 2015 levels by 17% and 11% respectively.

Note 15. General and Administration expenses

$000's	Prior quarter	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Wages and employee costs	553	**641**	245	**1,194**	437
Consultants - inc. PR/IR	46	**226**	81	**272**	191
Legal fees	34	**72**	4	**106**	11
Audit, tax and accounting services	60	**69**	134	**129**	207
Public company fees	54	**81**	-	**135**	-
Travel	43	**39**	101	**82**	147
Office expenses	147	**173**	64	**320**	162
IT expenses	46	**64**	10	**110**	18
Service recharges	(123)	**(453)**	-	**(576)**	-
Total - Net G&A	860	**912**	639	**1,772**	1,173

General and administrative ("G&A") costs for the three and six months ended June 30, 2016 were US$0.9 million and US$1.8 million respectively compared to US$0.6 million and US$1.2 million for the prior periods in 2015. This represents an increase of 43% and 51% respectively, when compared to the comparative periods of 2015. The comparative periods of 2015 represent the costs of Madison Petrogas Ltd only pre-combination whereas the 2016 costs cover the enlarged group.

Service recharges for the three months ended June 30, 2016 of US$(0.5) million are higher than the prior quarter of US$(0.1) million due to the 3D seismic campaign in the South Disouq concession commencing and completing in the quarter. The service recharges represent the operator's time spent and recharged to the project and the recovery of indirect overhead recharges from a concession partner.

Note 16. Net Financing costs

$000's	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Interest and bank charges	**7**	16	**82**	64
Foreign exchange loss/(gain) - realized	**(274)**	(244)	**15**	(502)
Accretion of decommissioning provisions	**-**	1	**-**	2
Net Financing Expense	**(267)**	(227)	**97**	(436)

The interest and bank charges of US$0.1 million for the six months ended June 30, 2016 consists of finance fees from EDBE bank to provide a factoring facility for the Block-H Meseda monthly production service fees invoices and monthly bank charges.

Note 17. Income tax

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 included in net oil revenues and also being deducted as part of 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 Statement of Comprehensive Income for the three and six months ended June 30, 2016 relates to income tax on North West Gemsa's PSC which is paid by a government controlled corporation and income tax relating to the Company's PSA in Block-H Meseda which it is liable to pay itself. With regards to the three and six months ended June 30, 2015 the income tax expense only relates to the Company's PSA in Block-H Meseda.

The current income taxes liability in the Consolidated Balance Sheet relates to the Company's PSA in Block-H Meseda.

Note 18. Income per share

	Three months ended June 30		Six months ended June 30	
$000's	**2016**	2015	**2016**	2015
Net (loss)/income before other comprehensive income for the year	**(25,163)**	1,067	**(26,047)**	2,053
Weighted average number of shares (000's)				
Basic	**55,315**	56,348	**46,527**	56,348
Diluted	**55,315**	63,258	**46,527**	63,258
Per share amount				
Basic	**$(0.455)**	$0.019	**$(0.560)**	$0.036
Diluted	**$(0.455)**	$0.017	**$(0.560)**	$0.032

Basic income per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-forma exercise of in-the-money stock options or warrants used to purchase common shares at average market prices. At June 30, 2016 the strike price of such instruments was above the average market share price, therefore they became anti-dilutive which resulted in a diluted EPS equal to the basic EPS.

Note 19. Segmental Reporting

Functional segments

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions. The executive directors consider the business from a functional perspective, that is from an 'operations' functional standpoint which includes all of the company's oil and gas operations irrespective of geography and from a 'corporate' functional standpoint. The corporate function includes the Company's administrative and head office function in the UK and residual functions in Canada related to the Board of Directors and TSX-V listing requirements. All key decisions are made by management having regard to these two functions. For the purpose of providing more detailed information in the MD&A, the operations function has been analyzed further to provide some of the production statistics on a field by field basis in Egypt. The company's operations in Cameroon are still in the exploration phase and therefore are not generating production information. Set out below is segmented information on a functional basis for the three and six month period ended June 30, 2016 and 2015.

	Three months ended June 30, 2016			Three months ended June 30, 2015		
$000's	**Corporate**	**Operations**	**Total**	Corporate	Operations	Total
Revenue	-	2,521	2,521	-	2,900	2,900
Direct operating expenses	-	1,290	1,290	-	1,004	1,004
Exploration and evaluation expense	172	24,711	24,883	-	-	-
Depletion, depreciation and amortization	11	834	845	2	434	436
Stock based compensation	100	-	100	146	-	146
Equity in income of associate	-	(365)	(365)	-	(357)	(357)
General and administrative expenses	683	229	912	563	76	639
Operating (loss)/income	(966)	(24,178)	(25,144)	(711)	1,743	1,032
Net finance expense	80	(347)	(267)	47	(274)	(227)
(Loss)/income before income taxes	(1,046)	(23,831)	(24,877)	(758)	2,017	1,259
Current income tax expense	-	287	287	-	264	264
Deferred income tax expense	-	-	-	-	(72)	(72)
Total Current and Deferred income tax expense	-	287	287	-	192	192
Net (loss)/income after income taxes	(1,046)	(24,118)	(25,164)	(758)	1,825	1,067
Other comprehensive loss - foreign exchange	-	-	-	(44)	-	(44)
Comprehensive (loss)/income for the period	(1,046)	(24,118)	(25,164)	(714)	1,825	1,111

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

Note 19. Segmental Reporting (continued)

	Six months ended June 30, 2016			Six months ended June 30, 2015		
$000's	Corporate	Operations	Total	Corporate	Operations	Total
Revenue	-	4,631	4,631	-	5,715	5,715
Direct operating expenses	-	2,289	2,289	-	1,675	1,675
Exploration and evaluation expense	152	24,731	24,883	-	-	-
Depletion, depreciation and amortization	23	1,639	1,662	5	882	887
Stock based compensation	194	-	194	323	-	323
Equity in income of associate	-	(712)	(712)	-	(637)	(637)
General and administrative expenses	1,325	447	1,772	1,075	98	1,173
Operating (loss)/income	(1,694)	(23,763)	(25,457)	(1,403)	3,697	2,294
Net finance expense	100	(3)	97	(265)	(171)	(436)
(Loss)/income before income taxes	(1,794)	(23,760)	(25,554)	(1,138)	3,868	2,730
Current income tax expense	-	493	493	-	766	766
Deferred income tax expense	-	-	-	-	(89)	(89)
Total Current and Deferred income tax expense	-	493	493	-	677	677
Net (loss)/income after income taxes	(1,794)	(24,253)	(26,047)	(1,138)	3,191	2,053
Other comprehensive loss - foreign exchange	-	-	-	165	-	165
Comprehensive (loss)/income for the period	(1,794)	(24,253)	(26,047)	(1,303)	3,191	1,888

The segment assets and liabilities as at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016			December 31, 2015		
$000's	Corporate	Operations	Total	Corporate	Operations	Total
Segment assets	4,426	42,805	47,231	5,505	54,511	60,016
Segment liabilities	632	8,039	8,671	1,249	3,521	4,770

The segment capital expenditures for the three and six months ended June 30, 2016 and 2015 are as follows:

	Three months ended June 30, 2016			Three months ended June 30, 2015		
$000's	Corporate	Operations	Total	Corporate	Operations	Total
Capital additions - PP&E oil interests	-	542	542	-	820	820
Capital additions - intangible exploration and evaluation assets	-	5,918	5,918	-	784	784
Capital additions - office assets	15	-	15	1	-	1

	Six months ended June 30, 2016			Six months ended June 30, 2015		
$000's	Corporate	Operations	Total	Corporate	Operations	Total
Capital additions - PP&E oil interests	-	977	977	-	956	956
Capital additions - intangible exploration and evaluation assets	-	11,302	11,302	-	959	959
Capital additions - office assets	15	-	15	3	-	3

Note 20. Commitments

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

The commitments relate to a 3D seismic campaign and the drilling of one exploration well for South Disouq (US$5.0 million). The drilling of one development well and facilities upgrade for South Ramadan (US$2.9 million). The drilling of one development well for Block-H Meseda (US$0.1 million) and the drilling of one exploration well in Bakassi West – Cameroon (US$6.3 million).

The work program for South Disouq is secured by a US$3.0 million withholding of Shukheir Marine receivables. The 3D seismic acquisition campaign was completed on June 12, 2016 and the 3D seismic processing and interpretation is expected to be completed during Q4 2016. The remaining commitment value for South Disouq at June 30, 2016 was US$0.3 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.

The work program for Bakassi West – Cameroon was secured by a Parent Company Guarantee ("PCG") of US$7.0 million. The Manatee-1x well was completed on March 28, 2016 with the commitment being discharged. The operator of Bakassi West, Dana Petroleum, notified the Company that the PCG was subsequently cancelled effective July 13, 2016.

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

$000's	June 30 2016	December 31 2015
Less than one year	382	13,677
Between one and five years	2,933	2,933
Total	3,315	16,610

Non-cancellable office leases

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

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

$000's	June 30 2016	December 31 2015
Less than one year	316	302
Between one and five years	694	813
Total	1,010	1,115

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

Note 21. Compensation of Directors and Executive Officers

The remuneration of directors and executive officers during the three and six months ended June 30, 2016 and 2015 were as follows:

	Three months ended June 30		Six months ended June 30	
$000's	**2016**	2015	**2016**	2015
Salaries, incentives and short term benefits	**283**	149	**558**	305
Director's fees	**53**	15	**91**	30
Stock based compensation	**83**	120	**168**	269
Total compensation	**419**	284	**817**	604

The executive officers include the President and Chief Executive Officer, the Chief Financial Officer and the Egypt Country Manager. The Director's fees represent fees for the Company's non-executive directors.

Note 22. Subsequent Events

On May 20, 2016 the Company announced its admission to the AIM market of the London Stock Exchange ("AIM") and the successful placement of 42,201,835 shares, which included 3,910,000 conditional placement shares. A further press release was issued on July 25, 2016 announcing that the 3,910,000 conditional placement shares had also been issued to an investor upon its approval as an insider by the TSX. These conditional shares commenced trading on AIM on July 28, 2016.

On June 16, 2016 the Company announced its intention to withdraw from the Bakassi West concession, in Cameroon, as the Operator's request for a one year extension to the concession, to assess commercialization options for the gas discovered on the block, was refused by the Government prior to the first exploration period concession expiration on June 12, 2016. Post period the government of Cameroon approved the one-year extension but both the Company and the Operator (Dana Petroleum Cameroon Limited) declined to continue into the extended period. However, the 3rd partner in the concession, SoftRock Oil Cameroon, elected to continue into the extension period and were assigned the equity interests of both exiting parties and assumed operatorship. The Company's withdrawal from the concession was effective July 31, 2016.