Management Discussion & Analysis

2016 Q3 Interim Report

Management's Discussion & Analysis
for the three and nine months ended September 30, 2016

(prepared in US$)

Basis of presentation

The following Management's Discussion and Analysis (the "MD&A") dated November 25, 2016 is a review of results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), for the three and nine months ended September 30, 2016. This MD&A should be read in conjunction with the accompanying interim unaudited consolidated financial statements for the three and nine months ended September 30, 2016 and the audited consolidated financial statements for the year ended December 31, 2015. In order to provide the reader with a better understanding of the underlying operational performance of the combined business (of Sea Dragon and Madison) for the three and nine months ended September 30, 2016 and 2015, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a three and nine months to September 30, 2016 basis versus a three and nine months to September 30, 2015 basis. The proforma sections commence after the completion of the sections of the MD&A based on the interim unaudited consolidated financial statements for the period ended September 30, 2016 which have been prepared under IFRS 3-Business Combinations.

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

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

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

Forward-looking statements

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

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

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

Use of estimates

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

Business combination

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

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

In preparing the interim unaudited consolidated financial statements the Company must conform with IFRS 3 – Business Combinations. Given that the former Madison shareholders hold 71% of the combined entity Madison is treated as the acquirer. This means that in the interim unaudited Financial Statements to September 30, 2016, whilst the 2016 figures in the Statement of Comprehensive (Loss)/Income relates to the combined entity, the 2015 comparatives contain nine months of revenue and costs for Madison only.

Non-IFRS measures

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

As mentioned above, in order to provide the reader with a better understanding of the underlying operational performance of the combined business (of Sea Dragon and Madison) for the periods ended September 30, 2016 and 2015, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a three and nine months to September 30, 2016 basis versus three and nine months to September 30, 2015 basis for the combined entity (former Sea Dragon Energy Inc. and Madison Petrogas Ltd).

Funds from operations

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

Reconciliation of cash flow from operations and funds from operations:

	Three months ended September 30		Nine months ended September 30	
$000's	**2016**	2015	**2016**	2015
Cash from operating activities	**(1,652)**	797	**(2,618)**	(1,294)
Add back: changes in non-cash working capital	**1,260**	(1,931)	**1,845**	(565)
Add back: income taxes paid	**383**	837	**766**	4,933
Funds (used in)/generated by operations - (FFO)	**(9)**	(297)	**(7)**	3,074

Netback

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

Management's Discussion & Analysis
for the three and nine months ended September 30, 2016

(prepared in US$)

SDX Energy's business strategy and work program

SDX Energy's business

SDX is engaged in the exploration, development and production of oil and gas. Current activities are concentrated in Egypt, where the Company has interests in four concessions with short and long-term potential. The Company exited its operation in Cameroon on July 31, 2016 (see below). The Company's strategy is to develop the potential of its existing concessions while seeking growth opportunities within its region of focus, being the Middle East and North Africa. The Company intends to create shareholder value by enhancing the value of its assets and through significant growth in production volumes, cash flow and earnings.

Strategy

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

SDX intends to organically increase production and cash flow generation through an active work program consisting of workover and development wells in its existing portfolio in Egypt, combined with high impact exploration drilling in Egypt. After analyzing its Bakassi West gas discovery in Cameroon, and due to challenging gas market economics, the Company decided to exit the concession and the country. In pursuing this strategy, SDX also intends to leverage its balance sheet, which has been strengthened as a result of its successful US$11 million Placing (less expenses of c. US$1 million) which closed during Q2 2016, its early mover advantage and its regional network to grow through the acquisition of undervalued and/or underperforming producing assets principally in onshore Egypt, while maintaining a strict financial discipline to ensure an efficient use of funds.

The Company currently holds working interests ("W.I.") in three development and one exploration concession in Egypt:

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

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

2016 Work program

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

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

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

The Company's capital expenditure program for South Disouq in 2016 is estimated at US$7.0 million and primarily comprises of the cost to complete the 3D seismic program (acquisition and processing) and the annual training fees for the concession. As the Company has now incurred this expenditure, the State will be releasing its work program security of US$3.0 million of withheld receivables starting in Q4 2016.

In Cameroon the total cost of the Bakassi well and associated post-well analysis was c. US$6.4 million.

Operational and financial highlights

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

Operational and Financial information contained below represents the unaudited interim IFRS 3 information extracted from the Financial Statements for the three and nine months ended September 30, 2016 and 2015.

		Three months ended September 30		Nine months ended September 30	
$000's unless stated	Prior quarter (1)	**2016**	2015	**2016**	2015
Operational					
Oil revenue	2,011	**1,917**	-	**5,512**	-
Royalties	(863)	**(823)**	-	**(2,366)**	-
Net oil revenue	1,148	**1,094**	-	**3,146**	-
Production service fee revenue	1,373	**1,835**	2,215	**4,414**	7,930
Total net revenue	2,521	**2,929**	2,215	**7,560**	7,930
Operating costs	(1,290)	**(1,241)**	(816)	**(3,530)**	(2,490)
Netback (pre tax)	1,231	**1,688**	1,399	**4,030**	5,440
Oil Sales (bbl/d)	554	**510**	-	**557**	-
Production service fee (bbl/d)	616	**704**	723	**656**	779
Total boe/d	1,170	**1,214**	723	**1,213**	779
Oil sales volumes (bbls)	50,407	**46,935**	-	**152,501**	-
Production service fee volumes (bbls)	56,026	**64,792**	66,517	**179,638**	212,657
Total sales volumes (boe)	106,433	**111,727**	66,517	**332,139**	212,657
Brent oil price (US$/bbl)	$45.54	**$45.78**	$50.26	**$41.70**	$55.25
West Gharib oil price (US$/bbl)	$30.38	**$34.86**	$40.71	**$30.44**	$45.39
Realized oil price (US$/bbl)	$39.90	**$40.84**	-	**$36.14**	-
Realized service fee (US$/bbl)	$24.51	**$28.32**	$33.30	**$24.57**	$37.29
Net realized price (US$/boe)	$31.80	**$33.58**	$33.30	**$29.89**	$37.29
Total royalties (US$/boe)	$8.11	**$7.37**	-	**$7.12**	-
Operating costs (US$/boe)	$12.12	**$11.11**	$12.27	**$10.63**	$11.71
Netback - (US$/boe)	$11.57	**$15.11**	$21.03	**$12.13**	$25.58
Capital expenditures	6,475	**188**	797	**12,482**	2,715

(1) Three months ended June 30, 2016

Operational and financial highlights (continued)

Oil sales and production service fee revenues

$000's	Prior quarter	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Oil sales revenue	2,011	**1,917**	-	**5,512**	-
Production fee revenues	1,373	**1,835**	2,215	**4,414**	7,930
Oil sales and production fee revenues	3,384	**3,752**	2,215	**9,926**	7,930

Total revenues for the three and nine months ended September 30, 2016 were US$3.8 million and US$9.9 million compared to US$2.2 million and US$7.9 million for the comparative periods of the prior year.

Oil sales revenue relates to the NW Gemsa field and the decrease in oil sales revenues, compared to the prior quarter, of US$0.1 million, 5%, to US$1.9 million is due to an increase in realized sales price (US$0.05 million), or 2%, and a decrease in sales volumes (US$0.14 million), or 7%.

For the three months ended September 30, 2016 (compared to the prior quarter ending June 30, 2016) the increase in production service fees of US$0.5 million, 34%, to US$1.8 million is due to an increase in realized price (US$0.25 million) or, 18%, and an increase in volumes (US$0.22 million), or 16%.

For the nine months ended September 30, 2016 (compared to the nine months ended September 30, 2015) the decrease in production service fees of US$3.5 million, 44%, to US$4.4 million is due to a decrease in realized price (US$2.3 million), or 29%, and a decrease in volumes (US$1.2 million), or 16%.

Direct operating costs

$000's	Prior quarter	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
NW Gemsa	440	**377**	-	**1,157**	-
Block-H Meseda	835	**863**	816	**2,349**	2,490
Other	15	**1**	-	**24**	-
Direct operating costs	1,290	**1,241**	816	3,530	2,490

Direct operating costs for the three and nine months ended September 30, 2016 were US$1.2 million and US$3.5 million respectively compared to US$0.8 million and US$2.5 million for the comparative periods of the prior year. Prior quarter direct operating costs are US$0.1 million higher at US$1.3 million compared to US$1.2 million for the three months to September 30, 2016.

Direct operating costs for the nine months to September 30, 2016 for Block-H Meseda were US$0.1 million lower than the comparative nine month period of the prior year and in line with the prior quarter.

General and administrative expenses

$000's	Prior quarter	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Wages and employee costs	641	**735**	1,328	**1,929**	1,775
Consultants - inc. PR/IR	226	**99**	42	**370**	233
Legal fees	72	**76**	-	**182**	10
Audit, tax and accounting services	69	**53**	33	**182**	240
Public company fees	81	**158**	-	**293**	-
Travel	39	**21**	17	**104**	164
Office expenses	173	**235**	84	**555**	237
IT expenses	64	**109**	20	**219**	38
Transaction costs	-	**-**	496	**-**	496
Service recharges	(453)	**(261)**	-	**(837)**	-
Total - net G&A	912	**1,225**	2,020	**2,997**	3,193

General and administrative ("G&A") expenses for the three and nine months ended September 30, 2016 were US$1.2 million and US$3.0 million respectively compared to US$2.0 million and US$3.2 million for the comparative periods of the prior year.

G&A expenses for the nine months ended September 30, 2016 was lower than 2015 by US$0.2 million or 6%. The three and nine months ended September 30, 2015 represent Madison Petrogas Ltd only. The decrease in the nine months to September 30, 2016 compared to the same period in 2015 is due to the following:

- higher wages and employee costs of US$0.2 million as a result of the business combination and the SDX group having a corporate office in London and a local office in Cairo (US$1.2 million), partly offset by non-recurring severance costs of US$1.0 million incurred by Madison during the business combination in 2015;
- higher consultant fees of US$0.1 million due to increased 2016 Reserves Reporting fees as a result of the larger combined group, increased PR costs and increased Business Development and Technical consultancy costs;
- higher legal fees of US$0.2 million as a result of the group restructuring and legal assistance with public company requirements.
- public company fees of US$0.3 million as a result of the TSXV and AIM listings and non-executive directors fees. As a private company Madison Petrogas Ltd did not have this category of costs in 2015;
- higher office expenses due to SDX Energy's corporate office in London, local office and yard in Cairo and the lease costs for the office in Calgary which has been sublet but does not recover 100% of the cost;
- higher IT expenses due to software service agreements for technical licenses, offset by;
- the absence of transaction costs of US$0.5 million incurred by Madison in 2015; and
- service recharges (US$0.8 million) related to the cross charging of technical and administrative time spent by the Company on its exploration assets and the recovery of indirect overhead recharges from a concession partner.

Current taxes

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
Current taxes	287	**363**	55	**856**	822

Current taxes for the three and nine months ended September 30, 2016 were US$0.4 million and US$0.9 million respectively compared to US$0.1 million and US$0.8 million for the comparative period of the prior year. Current taxes increased by US$0.3 million for the three months ended September 30, 2016 when compared to 2015 due the absence in 2016 of a tax benefit arising from changes in tax rates and the deduction of previously disallowed expenses that occurred in Q3 2015.

Capital expenditures

The following table shows the capital expenditure for the Company in accordance with IFRS3 – Business Combinations and this agrees to the Notes 6 and 7 of the interim unaudited consolidated Financial Statements for the period ended September 30, 2016.

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
Property, plant and equipment expenditures ("PP&E")	542	**136**	473	**1,113**	1,429
Exploration and evaluation expenditures ("E&E")	5,918	**52**	350	**11,354**	1,309
Office furniture and equipment	15	**-**	(4)	**15**	(1)
Capital expenditures	6,475	**188**	819	**12,482**	2,737

During the nine months ended September 30, 2016, the Company incurred capital expenditures of US$1.1 million on PP&E and US$11.4 million on E&E. The PP&E additions of US$1.1 million related to the NW Gemsa concession and 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$0.2 million) and the recharge by the operator of indirect costs incurred on PP&E projects (US$0.4 million). The E&E additions of US$11.4 million consists of US$5.9 million in relation to the Bakassi West block in Cameroon ("Bakassi West") and US$5.5 million in relation to the South Disouq concession.

Property plant and equipment

The following table shows the cumulative costs and associated depletion, depreciation and impairment for property and equipment on all of the Company's oil and gas properties. Please see Note 6 of the Financial Statements for further details:

$000's	**September 30 2016**	December 31 2015
Oil and gas properties, at cost	**31,776**	30,663
Accumulated depletion and impairment	**(14,760)**	(12,334)
Net book value	**17,016**	18,329
Furniture and fixtures, at cost	**135**	120
Accumulated depreciation	**(84)**	(48)
Net book value	**51**	72
Property, plant and equipment assets, end of period	**17,067**	18,401

At September 30, 2016 for the purposes of the depletion calculation, US$2.3 million (December 31, 2015 – US$4.1 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Operational and financial highlights (continued)

Intangible exploration and evaluation assets

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

$000's	September 30 2016	December 31 2015
Exploration and evaluation assets, beginning of period	**23,473**	16,460
Additions	**11,354**	3,728
Acquisitions (business combination)	**-**	3,267
Transfer to exploration expense	**(24,435)**	18
Exploration and evaluation assets, end of period	**10,392**	23,473

The E&E additions of US$11.4 million consist of US$5.9 million in relation to the Bakassi West block in Cameroon ("Bakassi West") and US$5.5 million in relation to the South Disouq concession. The US$5.9 million additions for Bakassi West 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 the Bakassi West drilling operations had been completed by June 30, 2016, the Company made a full provision against the capitalised exploration cost of US$24.4 million and reflected the relevant impairment in the Statement of Comprehensive Income Statement for the period to June 30, 2016. There has been no material change to this position as at September 30, 2016.

The US$5.5 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$4.7 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).

Liquidity and capital resources

Share capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in one or more series. The common shares of SDX trade on the TSX Venture Exchange and the AIM market of the London Stock Exchange under the symbol SDX.

Trading statistics	Prior quarter	Three months ended September 30 2016	Six months ended September 30 2016
High (CDN)	$0.51	**$0.47**	$0.70
Low (CDN)	$0.26	**$0.33**	$0.26
Average volume	28,261	**29,642**	30,072

The following table summarizes the outstanding common shares, options and warrants as at November 18, 2016, September 30, 2016 and December 31, 2015 for SDX Energy Inc.

Outstanding as at:	November 24 2016	September 30 2016	December 31 2015
Common shares	**79,843,902**	**79,843,902**	37,642,067
Warrants	**-**	**-**	610,743
Options	**2,650,000**	**2,650,000**	2,650,000

The increase in Common shares as at September 30, 2016 relates to the unconditional new Common shares issued on May 20, 2016 on completion of SDX's Placing and dual listing on AIM plus a further 3,910,000 conditional Common shares issued to an investor on July 25, 2016 upon receipt of TSX approval as an Insider.

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

The following table summarizes the outstanding options as at September 30, 2016:

	Outstanding options		Vested options	
Exercise price range	Number of options	Remaining contractual life	Number of options	Remaining contractual life
$0.63	2,650,000	4.3 years	883,325	4.3 years

Stock based compensation

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

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

During the three months ended September 30, 2016, it was determined that one of the inputs to the Black-Scholes option pricing model, specifically volatility of returns, required to be updated following the business combination between Sea Dragon and Madison. As a result, non-cash stock based compensation credits of US$0.3m and US$0.1m have been recognized for the three and nine months ended September 30, 2016, respectively.
For the three and nine months ended September 30, 2015 the Company recorded non-cash stock based compensation charges of US$0.1 million and US$0.5 million respectively.

Capital resources

As at September 30, 2016 the Company had working capital of approximately US$9.6 million. The Company expects to fund its 2016 capital program through funds generated from operations and cash on hand.

As at September 30, 2016, the Company had cash and cash equivalents of US$5.0 million compared to US$8.2 million as at December 31, 2015.
The company had net cash outflows of US$3.2 million (including the effects of foreign exchange on cash and cash equivalents) during the nine months ended September 30, 2016. For further detail, please see sources and uses table below.

As at September 30, 2016, the Company had US$7.9 million in trade and other receivables compared to US$6.7 million as at December 31, 2015. Approximately US$6.5 million is due from a government of Egypt controlled corporation (EGPC) for oil sales and production service fees; US$3.5 million is expected to be received in the normal course of operations; the remaining US$3.0 million is with-held as a rolling guarantee towards the work program for the South Disouq concession. The Company also had a receivable of US$0.4 million related to joint venture partner current accounts for the Bakassi West concession.

Subsequent to September 30, 2016, the Company collected US$1.85 million of trade receivables from that were outstanding at September 30, 2016; US$0.3 million for NW Gemsa representing July and August 2016 crude oil sales invoices, US$0.8 million for Meseda representing July and August 2016 production service fees and US$0.75 million of the rolling South Disouq production guarantee referred to above.

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

$000's	**September 30 2016**	December 31 2015
Current assets		
Cash and cash equivalents	**4,961**	8,170
Trade and other receivables	**7,896**	6,678
Inventory	**1,190**	1,188
Total current assets	**14,047**	16,036
Current liabilities		
Trade and other payables	**4,042**	3,556
Current income taxes	**412**	928
Total current liabilities	**4,454**	4,484
Working capital	**9,593**	11,552

The decrease in working capital of US$2.0 million since December 31, 2015 for SDX Energy Inc. is as a result of i) net cash reduction of US$3.2 million, ii) an increase in trade payables of US$0.5 million, offset by iii) an increase in trade receivables of US$1.2 million and iv) a reduction in current income tax liability of US$0.5 million.

Operational and financial highlights (continued)

The following table outlines the Company's sources and uses of cash for the three and nine months ended September 30, 2016 and 2015:

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
Sources:					
Funds from operations	593	**(9)**	(297)	**(7)**	3,074
Private placement on London Stock Exchange AIM	9,167	**858**	-	**10,025**	-
Dividends received	-	**824**	(48)	**824**	917
Changes in non-cash working capital	(1,166)	**(1,260)**	1,931	**(1,845)**	565
	8,594	**413**	1,586	**8,997**	4,556
Uses:					
Property, plant and equipment expenditures	(15)	**-**	(447)	**(15)**	(1,406)
Exploration and evaluation expenditures	(10,019)	**(2,047)**	(350)	**(11,356)**	(1,309)
Repayment of debentures	-	**-**	-	**-**	(2,052)
Finance costs paid	(8)	**(46)**	(322)	**103**	(386)
Income taxes paid	(383)	**(383)**	(837)	**(766)**	(4,933)
Effect of foreign exchange on cash and cash equivalents	109	**75**	(101)	**(172)**	(415)
	(10,316)	**(2,401)**	(2,057)	**(12,206)**	(10,501)
Increase/(decrease) in cash	(1,722)	**(1,988)**	(471)	**(3,209)**	(5,945)
Cash and cash equivalents at beginning of period	8,671	**6,949**	12,461	**8,170**	17,935
Cash and cash equivalents at end of period	6,949	**4,961**	11,990	**4,961**	11,990

The Company's funds from operations for the nine months ended September 30, 2016 compared to the prior period ended September 30, 2015 has decreased by US$3.0 million due to:

i) a decrease of US$0.4 million in net revenues as a result of lower production and pricing at Meseda (US$3.5 million) partly offset by the inclusion of NW Gemsa net revenues US$3.1 million in 2016;
ii) an increase in operating costs of US$1.0 million as a result of the inclusion of the operating expenses incurred by the NW Gemsa concession during the nine months to September 30, 2016;
iii) a net decrease of US$0.2 million in general and administrative costs in 2016 as a result of the absence in 2016 of Madison severance and transaction-related costs (US$1.5 million) partly offset by the increased costs of the combined entity post-business combination (US$1.3 million);
iv) an increase in finance costs of US$0.6 million as a result of realized foreign exchange gains in 2015 that did not recur in 2016. In 2015 Madison had realized foreign exchange gains on the revaluation of EGP and CAD$ denominated balances.

Financial instruments

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

Market risk

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

Commodity price risk

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

At September 30, 2016 the Company did not have any outstanding derivatives in place.

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

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

	Total per FS[1]	US$	EGP	GBP	Other
As at September 30, 2016	US$ Equivalent				
Cash and cash equivalents	4,961	2,332	1,412	1,099	118
Trade and other receivables	7,896	7,281	35	559	21
Trade and other payables	(4,042)	(2,232)	(1,276)	(362)	(172)
Current income taxes	(412)	-	(412)	-	-
Balance sheet exposure	8,403	7,381	(241)	1,296	(33)

(1) denotes Financial Statements

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

Average: July 1, 2016 to September 30, 2016			Average: July 1, 2015 to September 30, 2015		
	USD/EGP	USD/GBP		USD/EGP	USD/GBP
Period average	8.8796	0.7617	Period average	7.7966	0.6540

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

Average: January 1, 2016 to September 30, 2016			Period end: January 1, 2015 to September 30, 2015		
	USD/EGP	USD/GBP		USD/EGP	USD/GBP
Period average	8.5969	0.7191	Period average	7.6257	0.6526

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

Period end: September 30, 2016			Period end: September 30, 2015		
	USD/EGP	USD/GBP		USD/EGP	USD/GBP
September 30, 2016	8.8801	0.7710	September 30, 2015	7.8078	0.6593

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

As at September 30, 2016 the Company's trade and other payables are as follows:

	Carrying amount	
$000's	**September 30 2016**	December 31 2015
Current		
Trade payables	**108**	198
Accruals	**722**	1,284
Other payables	**3,212**	2,074
Total trade and other payables	**4,042**	3,556

Accruals comprise general and administrative costs related to restructuring, audit, tax and reserve reporting fees.

Other payables of US$3.2 million comprise an estimated liability of US$1.1 million related to the relinquishment of the Shukheir Marine concession, partner current accounts of US$1.9 million for NW Gemsa (US$1.6 million), Block-H Meseda (US$0.3 million) concessions, UK payroll taxes and deferred payroll of US$0.2 million.

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

Operational and financial highlights (continued)

Financial instruments (continued)

Credit risk

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

	Carrying amount	
$000's	**September 30 2016**	December 31 2015
Cash and cash equivalents	**4,961**	8,170
Trade and other receivables	**7,896**	6,678
Total	**12,857**	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.

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

	Carrying amount	
$000's	**September 30 2016**	December 31 2015
Current		
Government of Egypt controlled corporations	**6,511**	5,018
Joint venture partners	**372**	862
Other	**1,013**	798
Total trade and other receivables	**7,896**	6,678

Current receivables of US$6.5 million related to oil sales and production service fees which are due from EGPC (December 31, 2015: US$5.0 million), a Government of Egypt controlled corporations. 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$1.4 million for NW Gemsa and US$2.1 million for Block – H Meseda, in the normal course of operation. The US$3.0 million of Shukheir Marine oil invoices, which are pledged against the Company's obligations under its South Disouq work program, are expected to be collected during Q4 2016/Q1 2017 as the South Disouq work programme is now complete.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. Joint venture partner receivables of US$0.4 million (2015 - US$0.9 million) relate to the Bakassi West Cameroon concession (2015: South Disouq US$0.8 million and Block – H Meseda US$0.1 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 September 30, 2016 and December 31, 2015, the Company's trade and other receivables are aged as follows:

	Carrying amount	
$000's	**September 30 2016**	December 31 2015
Current		
Current (less than 90 days)	**3,903**	3,364
Past due (more than 90 days)	**3,993**	3,314
Total trade and other receivables	**7,896**	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$0.7 million when compared to December 31, 2015. This increase is due to more restricted USD availability in Egypt during Q3 2016 which is expected to improve in Q4 2016.

Subsequent to September 30, 2016, the Company collected US$1.85 million of trade receivables from that were outstanding at September 30, 2016; US$0.3 million for NW Gemsa representing July and August 2016 crude oil sales invoices, US$0.8 million for Meseda representing July and August 2016 production service fees and US$0.5 million of the rolling South Disouq production guarantee referred to above.

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

The Company defines and computes its capital as follows:

	Carrying amount	
$000's	**September 30 2016**	December 31 2015
Equity	**39,161**	55,246
Working capital (1)	**(9,593)**	(11,552)
Total capital	**29,568**	43,694

(1) Working capital is defined as current assets less current libilities.

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

Accounting policies and estimates

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

Accounting policies
The accounting policies adopted are consistent with those of the previous financial year. The policies applied are based on IFRS issued and outstanding at the date that the Audit Committee approved the interim unaudited consolidated financial statements for the three and nine months ended September 30, 2016.

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

Future changes in accounting policies
There are no updates to future changes in accounting policies in the first nine months of 2016. Further information on future changes in accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2015.

Business risk assesment

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

Political risk

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

Financial resources

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

Exploration, development and production

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

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

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

Oil and natural gas prices

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

Reserve estimates

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

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

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

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

Reliance on operators and key employees

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

Government regulations

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

Environmental factors

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

Insurance

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

Regulatory matters

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

Business risk assesment (continued)

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

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

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

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

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

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

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

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

Disclosure controls and procedures
As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the period ended September 30, 2016. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109 as at September 30, 2016.

Proforma interim financial information

As mentioned in the introduction to this MD&A, in order to provide the reader with a better understanding of the underlying operational performance of the combined SDX business for the three and nine months to September 30, 2016, the following pages will discuss the actual performance of the combined business for the three and nine months ended September 30, 2016 comparing it to a proforma combined business performance for the three and nine months ended September 30, 2015. The table below sets out how the proforma comprehensive income for the combined business has been created for the three and nine months ended September 30, 2015.

Income statement reconciliation

The table below is a reconciliation of the interim unaudited consolidated Statement of Comprehensive Income and associated operating data for the three and nine months ended September 30, 2015 to the full three and nine months ended September 30, 2015 proforma interim operating data which is discussed within the remainder of this MD&A.

	Three months ended September 30			Nine months ended September 30		
$000's	**2015 SDX Energy Inc as per interim unaudited consolidated Financial Statements [1]**	2015 Sea Dragon Energy Inc (pre-combination)	**2015 Combined SDX Group - Pro Forma**	**2015 SDX Energy Inc as per Financial Statements [1]**	2015 Sea Dragon Energy Inc (pre-combination)	**2015 Full nine months of combined SDX Group - Pro Forma unaudited**
Financial						
Oil revenue	**-**	2,848	**2,848**	**-**	10,972	**10,972**
Royalties	**-**	(1,058)	**(1,058)**	**-**	(4,781)	**(4,781)**
Net oil revenue	**-**	1,790	**1,790**	**-**	6,191	**6,191**
Production service fee revenue	**2,215**	-	**2,215**	**7,930**	-	**7,930**
Total net revenue	**2,215**	1,790	**4,005**	**7,930**	6,191	**14,121**
Operating costs	**(816)**	(651)	**(1,467)**	**(2,490)**	(1,066)	**(3,556)**
Netback (pre tax)	**1,399**	1,139	**2,538**	**5,440**	5,125	**10,565**
Exploration and evaluation expense	**-**	-	**-**	**-**	-	**-**
Depletion, depreciation and amortization	**(333)**	(470)	**(803)**	**(1,220)**	(1,718)	**(2,938)**
Stock based compensation	**(138)**	(38)	**(176)**	**(461)**	(140)	**(601)**
Equity in income of associate	**286**	-	**286**	**922**	-	**922**
Business development expense	**-**	(482)	**(482)**	**-**	(557)	**(557)**
Gain on disposal of materials inventory	**-**	-	**-**	**-**	235	**235**
General and administrative expenses	**(2,020)**	(1,399)	**(3,419)**	**(3,193)**	(3,155)	**(6,348)**
Other	-	(16)	(16)	-	(75)	(75)
Operating (loss)/income	**(806)**	(1,266)	**(2,072)**	**1,488**	(285)	**1,203**
Net finance income/(expense)	**149**	(114)	**35**	**586**	(508)	**78**
Current Income tax expense	**(55)**	(375)	**(430)**	**(822)**	(1,250)	**(2,072)**
Deferred Income tax expense	**6**	-	**6**	**95**	-	**95**
Net (loss)/income	**(706)**	(1,755)	**(2,461)**	**1,347**	(2,043)	**(696)**
Other comprehensive loss						
Foreign exchange	**(323)**	-	**(323)**	**(489)**	-	**(489)**
Total comprehensive income/(loss) for the period	**(1,029)**	(1,755)	**(2,784)**	**858**	(2,043)	**(1,185)**

(1) SDX Energy Inc contains financial information from the interim unaudited consolidated Statement of Comprehensive Income; see Financial Statements. It represents three and nine months of Madison Petrogas Ltd only in accordance with IFRS 3 - Business Combinations.

Management Discussion & Analysis

Proforma interim financial information (continued)

Income statement reconciliation (continued)

	Three months ended September 30			Nine months ended September 30		
per unit amounts	**2015 SDX Energy Inc as per interim unaudited consolidated Financial Statements [1]**	2015 Sea Dragon Energy Inc (pre-combination)	**2015 Combined SDX Group - Pro Forma**	**2015 SDX Energy Inc as per Financial Statements [1]**	2015 Sea Dragon Energy Inc (pre-combination)	**2015 Full nine months of combined SDX Group - Pro Forma unaudited**
Operational						
Oil sales (bbl/d)	**-**	674	**674**	**-**	794	**794**
Production service fee (bbl/d)	**723**	-	**723**	**779**	-	**779**
Total boe/d	**723**	674	**1,397**	**779**	794	**1,573**
Oil sales volumes (bbls)	**-**	62,031	**62,031**	**-**	216,868	**216,868**
Production service fee volumes (bbls)	**66,517**	-	**66,517**	**212,657**	-	**212.657**
Total sales volumes (boe)	**66,517**	62,031	**128,548**	**212,657**	216,868	**429,525**
Brent oil price (US$/bbl)	**$50.26**	$50.26	**$50.26**	**$55.25**	$55.25	**$55.25**
West Gharib oil price (US$/bbl)	**$40.71**	-	**$40.71**	**$45.39**	-	**$45.39**
Realized oil price (US$/bbl)	**-**	$45.91	**$45.91**	**-**	$50.59	**$50.59**
Realized service fee (US$/bbl)	**$33.30**	-	**$33.30**	**$37.29**	-	**$37.29**
Net realized price (US$/boe)	**$33.30**	$45.91	**$39.39**	**$37.29**	$50.59	**$44.01**
Total royalties (US$/boe)	**-**	$17.06	**$8.23**	**-**	$22.04	**$11.13**
Operating costs (US$/boe)	**$12.27**	$10.49	**$11.41**	**$11.71**	$4.92	**$8.28**
Netback - (US$/boe)	**$21.03**	$18.36	**$19.74**	**$25.58**	$23.63	**$24.60**
Capital expenditures	**797**	781	**1,578**	**2,715**	1,239	**3,955**

(1) SDX Energy Inc contains financial information from the interim unaudited consolidated Statement of Comprehensive Income; see Financial Statements.
It represents a three and nine months of Madison Petrogas Ltd only in accordance with IFRS 3 - Business Combinations.

As per the interim unaudited consolidated Financial Statements for the three and nine months ended September 30, 2016, the Company recorded a total comprehensive loss of US$(25.9) million for the nine months ended September 30, 2016, compared to a total comprehensive loss of US$1.2 million for the nine months ended September 30, 2015.

The following table, however, shows the Total Comprehensive Income/(Loss) for the three and nine months ended September 30, 2016 and 2015 on a proforma basis i.e. as if the business combination had been in effect for 2015 comparators. The constituent parts for the September 30, 2015 components of this table are shown in more detail on pages 27 to 31 of this MD&A.

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Revenue, net of royalties	**2,929**	4,005	**7,560**	14,121
Operating costs	**(1,241)**	(1,467)	**(3,530)**	(3,556)
Netback (pre tax)	**1,688**	2,538	**4,030**	10,565
Exploration and evaluation expense	**14**	-	**(24,870)**	-
Depletion, depreciation and amortization	**(800)**	(803)	**(2,462)**	(2,938)
Stock based compensation	**298**	(176)	**104**	(601)
Equity in income of associate	**401**	286	**1,113**	922
Business development costs	**-**	(482)	**-**	(557)
Gain on disposal of materials inventory	**-**	-	**-**	235
General and administrative expenses	**(1,225)**	(3,419)	**(2,997)**	(6,348)
Other	**-**	(16)	**-**	(75)
Operating income/(loss)	**376**	(2,072)	**(25,082)**	1,203
Net finance income/(expense)	**127**	35	**31**	78
Income/(loss) before income taxes	**503**	(2,037)	**(25,051)**	1,281
Current income tax expense	**(363)**	(430)	**(856)**	(2,072)
Deferred income tax credit/(expense)	**-**	6	**-**	95
Net income/(loss)	**140**	(2,461)	**(25,907)**	(696)
Other comprehensive loss				
Foreign exchange	**-**	(323)	**-**	(489)
Total comprehensive income/(loss) for the period	**140**	(2,784)	**(25,907)**	(1,185)

Proforma interim financial information (continued)

Operational and financial highlights

$000's unless stated	Prior quarter [1]	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Operational					
Oil revenue	2,011	**1,917**	2,848	**5,512**	10,972
Royalties	(863)	**(823)**	(1,058)	**(2,366)**	(4,781)
Net oil revenue	1,148	**1,094**	1,790	**3,146**	6,191
Production service fee revenue	1,373	**1,835**	2,215	**4,414**	7,930
Total net revenue	2,521	**2,929**	4,005	**7,560**	14,121
Operating costs	(1,290)	**(1,241)**	(1,467)	**(3,530)**	(3,556)
Netback (pre tax)	1,231	**1,688**	2,538	**4,030**	10,565
Oil Sales (bbl/d)	554	**510**	674	**557**	794
Production service fee (bbl/d)	616	**704**	723	**656**	779
Total boe/d	1,170	**1,214**	1,397	**1,213**	1,573
Oil sales volumes (bbls)	50,407	**46,935**	62,031	**152,501**	216,868
Production service fee volumes (bbls)	56,026	**64,792**	66,517	**179,638**	212,657
Total sales volumes (boe)	106,433	**111,727**	128,548	**332,139**	429,525
Brent oil price (US$/bbl)	$45.54	**$45.78**	$50.26	**$41.70**	$55.25
West Gharib oil price (US$/bbl)	$30.38	**$34.86**	$40.71	**$30.44**	$45.39
Realized oil price (US$/bbl)	$39.90	**$40.84**	$45.91	**$36.14**	$50.59
Realized service fee (US$/bbl)	$24.51	**$28.32**	$33.30	**$24.57**	$37.29
Net realized price (US$/boe)	$31.80	**$33.58**	$39.39	**$29.89**	$44.01
Total royalties (US$/boe)	$8.11	$7.37	$8.23	**$7.12**	$11.13
Operating costs (US$/boe)	$12.12	$11.11	$11.41	**$10.63**	$8.28
Netback - (US$/boe)	$11.57	$15.11	$19.75	**$12.13**	$24.60
Capital expenditures	6,475	188	1,578	17,482	3,955

(1) Three months ended June 30, 2016

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

Total oil sales volumes for the three and nine months ended September 30, 2016 averaged 510 bbl/d and 557 bbl/d (based on 274 days) respectively compared to 674 bbl/d and 794 bbl/d (based on 273 days) for the comparative periods of the prior year.

Total sales volumes fell by 15,096 barrels, 24%, to 46,935 barrels in the three months ended September 30 2016 compared to 62,031 in the comparative period of 2015. For the nine months ended September 30, 2016 sales volumes fell by 64,367 barrels, 30%, to 152,501 from the comparative period of 2015. 10,093 barrels of this decline relates to the relinquishment of the Shukheir Marine concession, effective January 31, 2015 which contributed a net reduction of 36.84 bbl/d.

The North West Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline with volumes showing a 54,274 barrel, 26%, decline to 152,501 for the period to September 30, 2016 compared to the 2015 comparatives. This natural decline contributed a net reduction of 198 bbl/d in 2016 compared to 2015.

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

		Three months ended September 30		Nine months ended September 30	
	Prior quarter	**2016**	2015	**2016**	2015
N W Gemsa	50,407	**46,935**	62,031	**152,501**	206,775
Shukheir Marine	-	**-**	-	**-**	10,093
Total crude oil sales	50,407	**46,935**	62,031	**152,501**	216,868

Production service fee volumes (relates to Meseda only)

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

Total production service fee volumes decreased by 1,725 barrels, 3%, to 64,792 barrels compared to the three months ended September 30 2015. This was as a result of natural reservoir declines. This contributed to a net reduction of 19 bbl/d in 2016 compared to 2015.

For the nine months ended September 30, 2016 production service fee volumes decreased by 33,019 barrels, 16%, to 179,638 barrels, a net reduction of 121 bbl/d compared to the prior year.

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

		Three months ended September 30		Nine months ended September 30	
	Prior quarter	**2016**	2015	**2016**	2015
Meseda - Block H	56,026	**64,792**	66,517	**179,638**	212,657
Total production service fee volumes	56,026	**64,792**	66,517	179,638	212,657

Pricing

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

For the three and nine months ended September 30, 2016 the Company received an average price per barrel of oil of US$40.84 and US$36.14 respectively compared to the average Brent oil price ("Brent") of US$45.78 and US$41.70; a discount of US$4.94, 11% and US$5.56, 13%, per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a contracted discounted price levied by EGPC.

For the three and nine months ended September 30, 2016 the Company received an average service fee per barrel of oil of US$28.32 and US$24.57 respectively compared to the average West Gharib price of US$34.86; a discount of US$6.54, 19%, per barrel and US$30.44; a discount of US$5.87, 19%, per barrel. The Company receives a discount to West Gharib due to the quality of the oil produced.

During the three and nine months ended September 30, 2016 the Brent price ranged from a low of US$26.01 per barrel on January 20, 2016 to a high of US$50.73 per barrel on June 8, 2016. The current low oil price environment is due to over-supply in the market particularly from OPEC countries and US shale producers, the lifting of trade sanctions on Iran and the subsequent ability for the country to market and sell crude oil, and lower demand as a result of lower growth in countries such as China. At this time, the Company does not hedge any of its production.

The Company commenced sales of gas and Natural Gas Liquids ("NGL") in February 2013 from the NW Gemsa concession. The operator continues to be in the process of addressing contractual invoicing with EGPC. No revenue or sales volumes have been recognized for the three and nine months ended September 30, 2016 and 2015; pending the issuance of invoices.

Proforma interim financial information (continued)

Crude oil sales

		Three months ended September 30		Nine months ended September 30	
$000's except per unit amounts	Prior quarter	**2016**	2015	**2016**	2015
Crude oil sales	2,011	**1,917**	2,848	**5,512**	10,972
Per bbl	39.90	**40.84**	45.91	**36.14**	50.59

Crude oil sales for the three and nine months ended September 30, 2016 were US$1.9 million and US$5.5 million respectively compared to US$2.8 million and US$11.0 million for the three and nine months ended September 30, 2015.

The crude oil sales per concession were:

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
N W Gemsa	2,011	**1,917**	2,848	**5,512**	10,557
Shukheir Marine	-	**-**	-	**-**	415
Total crude oil sales	2,011	**1,917**	2,848	**5,512**	10,972

Variance from prior quarter

For the three months ended September 30, 2016 (compared to the prior quarter ending June 30, 2016) the decrease in revenue of US$0.1 million, 5%, to US$1.9 million is due to an increase in realized sales price (US$0.05 Million) or 2%, offset by a decrease in sales volume (US$0.14 million), or 7%.

The decrease in sales volume is due to NW Gemsa reaching plateau production during the fourth quarter of 2014.

$000's	
Three months ended June 30, 2016	2,011
Price variance	45
Production variance	(139)
Three months ended September 30, 2016	**1,917**

Variance from prior year

For the nine months ended September 30, 2016 (compared to the nine months ending September 30, 2015) the decrease in revenue of US$5.5 million, 50%, to US$5.5 million is due to a decrease in realized sales price (US$2.2 million) or 20%, and a decrease in sales volume (US$3.3 million), or 30%.

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

$000's	
Nine months ended September 30, 2015	10,972
Price variance	(2,204)
Production variance	(3,256)
Nine months ended September 30, 2016	**5,512**

Production service fees

		Three months ended September 30		Nine months ended September 30	
$000's except per unit amounts	Prior quarter	**2016**	2015	**2016**	2015
Production service fees	1,373	**1,835**	2,215	**4,414**	7,930
Per bbl	24.51	**28.32**	33.30	**24.57**	37.29

Production services fees from Meseda for the three and nine months ended September 30, 2016 were US$1.8 million and US$4.4 million respectively, compared to US$2.2 million and US$7.9 million for the three and nine months ended September 30, 2015.

Variance from prior quarter

For the three months ended September 30, 2016 (compared to the prior quarter ending June 30, 2016) the increase in production service fees of US$0.5 million, 34%, to US$1.8 million in 2016 is due to an increase in realized price of US$0.2 million, 18%, and an increase in volumes of US$0.2 million, or 16%.

$000's	
Three months ended June 30, 2016	1,373
Price variance	247
Production variance	215
Three months ended September 30, 2016	**1,835**

Variance from prior year

For the nine months ended September 30, 2016 (compared to the nine months year ending September 30, 2015) the decrease in production service fees of US$3.5 million, 44%, to US$4.4 million in 2016 is due to a decrease in realized price of US$2.3 million, 29%, and a decrease in volumes of US$1.2 million, 16%.

$000's	
Nine months ended September 30, 2015	7,930
Price variance	(2,285)
Production variance	(1,231)
Nine months ended September 30, 2016	**4,414**

Gas and natural gas liquids ("NGL") Sales

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

Royalties

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

Royalties per concession are as follows:

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
N W Gemsa	863	**823**	1,058	**2,366**	4,605
Shukheir Marine	-	**-**	-	**-**	176
Total royalties by concession	863	**823**	1,058	**2,366**	4,781

Royalties per boe by concession are as follows:

		Three months ended September 30		Nine months ended September 30	
per unit amounts	Prior quarter	**2016**	2015	**2016**	2015
N W Gemsa	17.12	**17.54**	17.06	**15.51**	22.27
Shukheir Marine	-	**-**	-	**-**	17.45
Total royalties by concession	17.12	**17.54**	17.06	**15.51**	22.04

Proforma interim financial information (continued)

Royalties (continued)

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

Concession	SDX Energy WI (1)	Cost oil to contractors (2)	Capital cost recovered (2)	Operating cost recovered (2)	Excess oil to contractor (3)	Profit oil to contractor (4)
NW Gemsa (up to 10,000 BOPD Gross)	10%	30%	5 years	Immediate	Nil	16.1%
NW Gemsa (10,000 BOPD to 25,000 BOPD Gross)	10%	30%	5 years	Immediate	Nil	15.4%
NW Gemsa – Gas and LPG	10%	30%	5 years	Immediate	Nil	18.2%

(1) WI denotes the Company's Working interest

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

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

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

Direct operating costs

		Three months ended September 30		Nine months ended September 30	
$000's except per unit amounts	Prior quarter	**2016**	2015	**2016**	2015
Direct operating costs	1,290	**1,241**	1,467	**3,530**	3,556
Per boe	12.12	**11.11**	11.41	**10.63**	8.28

Direct operating costs for the three and nine months ended September 30, 2016 were US$1.2 million (US$11.11 per bbl) and US$3.5 million (US$10.63 per bbl) respectively, compared to US$1.5 million (US$11.41 per bbl) and US$3.5 million (US$8.28) in the comparative periods of the prior year.

The direct operating costs for the three months ended September 30, 2016 have decreased by US$0.2 million compared to the 2015 comparatives; a 15% decrease.

The direct operating costs per concession were:

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
N W Gemsa	440	**377**	595	**1,157**	1,545
Shukheir Marine	-	**-**	-	**-**	(535)
Meseda - Block H	835	**863**	816	**2,349**	2,490
Other	15	**1**	56	**24**	56
Total direct operating costs by concession	1,290	**1,241**	1,467	**3,530**	3,556

The direct operating costs per boe per concession were:

		Three months ended September 30		Nine months ended September 30	
per unit amounts	Prior quarter	**2016**	2015	**2016**	2015
N W Gemsa	8.74	**8.02**	9.59	**7.59**	7.47
Shukheir Marine	-	**-**	-	**-**	(53.05)
Meseda - Block H	14.90	**13.32**	12.27	**13.08**	11.71
Total direct operating costs (US$/boe) by concession	12.12	**11.11**	11.41	**10.63**	8.28

As a result of both the NW Gemsa and Meseda concessions undergoing meaningful workover programs in the three months to June 30, 2016 and, as a result of the operator of NW Gemsa charging the partners for some backdated overheads, the direct operating costs per concession, and per boe, were higher in the 3 months to June 30,2016 compared to the 3 months to September 30, 2016.

Current taxes

$000's	Prior quarter	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Current taxes	287	**363**	430	**856**	2,072

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

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

The current taxes per concession were:

$000's	Prior quarter	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
N W Gemsa	221	**210**	314	**605**	1,159
Shukheir Marine	-	**-**	-	**-**	30
Meseda - Block H	66	**153**	55	**251**	822
Other	-	**-**	61	**-**	61
Total current taxes by concession	287	**363**	430	856	2,072

General and administrative costs

$000's	Prior quarter	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Wages and employee costs	641	**735**	2,241	**1,929**	3,776
Consultants - inc. PR/IR	226	**99**	59	**370**	329
Legal fees	72	**76**	65	**182**	155
Audit, tax and accounting services	69	**53**	168	**182**	580
Public company fees	81	**158**	48	**293**	155
Travel	39	**21**	93	**104**	320
Office expenses	173	**235**	211	**555**	603
IT expenses	64	**109**	38	**219**	99
Transaction costs	-	**-**	496	**-**	496
Service recharges	(453)	**(261)**	-	**(837)**	(165)
Total - net G&A	912	**1,225**	3,419	**2,997**	6,348

General and administrative ("G&A") costs for the nine months ended September 30, 2016 were US$3.0 million compared to US$6.3 million for the comparative period of the prior year; a decrease of US$3.3 million, or 52%.

G&A costs in the above table represent a full nine months ended September 30, 2015 for the combined Sea Dragon Energy Inc. and Madison Petrogas Ltd now SDX Energy Inc.

The decrease of US$3.3 million is due to the following:

- lower wages and employee costs due to the absence of $1.0 million of transaction-related expenses (including severance) and a further (US$0.8 million) as a result of internal restructuring following the business combination;
- lower audit, tax and accounting services (US$0.4 million) due to the re-negotiation of the audit contract and only one audit for the SDX group whereas the comparatives include audit fees for both groups prior to the combination;
- an increase in public company fees of US$0.1 million;
- the absence of transactions costs incurred by Madison during the business combination (US$0.5 million);
- lower travel costs (US$0.2 million) due to a decrease in the frequency of flights;
- service recharges (US$0.7 million) related to the increase in cross charging of technical and administrative time spent by the Company on its exploration assets and the recovery of indirect overhead recharges from a concession partner.

Proforma interim financial information (continued)

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

		Three months ended September 30		Nine months ended September 30	
$000's except per unit amounts	Prior quarter	**2016**	2015	**2016**	2015
Depletion, depreciation and amortization	845	**800**	803	**2,462**	2,938
Per bbl	7.94	**7.16**	6.24	**7.41**	6.84

For the three and nine months ended September 30, 2016, depletion, depreciation and amortization ("DD&A") was US$0.8 million and US$2.5 million respectively, compared to US$0.8 million and US$2.9 million in the comparative periods of the prior year.

The DD&A per concession was:

		Three months ended September 30		Nine months ended September 30	
$000's	Prior quarter	**2016**	2015	**2016**	2015
NW Gemsa	603	**527**	439	**1,673**	1,440
Shukheir Marine	-	**-**	-	**-**	184
Meseda - Block H	229	**264**	320	**753**	1,206
Corporate - office assets	13	**9**	44	**36**	108
Total DD&A	845	**800**	803	**2,462**	2,938

Net earnings

As per the Financial Statements for the nine months ended September 30, 2016, the Company recorded a Total Comprehensive Loss of US$(25.9) million, compared to a pro-forma Total Comprehensive Loss of US$(1.2) million for the nine months ended September 30, 2015 (page 29 of this MD&A); a difference of US$(24.7) million.

The main components of the difference (US$(24.7) million) are:

- a fall in net revenues of US$6.6 million as a result of lower oil prices, reduced production and the relinquishment of the Shukheir Marine concession ("SHM") effective January 31, 2015,
- higher exploration and evaluation expense of US$24.9 million as a result of the withdrawal from the Bakassi West concession and the write down of the asset, offset by;
- increased income in Brentford Oil Tools of US$0.2 million;
- lower DD&A of US$0.5 million which relates to Block-H Meseda and the relinquishment of SHM;
- lower stock based compensation of US$0.7 million; 2015 comparatives showed both the Sea Dragon and Madison schemes whereas for 2016 there is only one scheme;
- lower G&A of US$3.3 million as a result on the business combination and consequent restructuring of the group;
- lower business development expenditure of US$0.6 million; and
- lower current income tax expense of US$1.2 million as a result of lower revenues due to the falling oil price and lower production and the relinquishment of SHM.

Summary of quarterly results

The fiscal and operational quarterly results shown below include full quarterly information for SDX Energy Inc., formerly Sea Dragon Energy Inc. and Madison Petrogas Ltd prior to the business combination (pre-combination), effective October 1, 2015. The quarterly results for Q3, Q2 and Q1, 2016 and Q4, 2015 represent the quarters for the newly combined group, SDX Energy Inc. post-combination.

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

Fiscal year	2016			2015				2014
Financial $000's	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash, beginning of period								
SDX Energy Inc. post combination	**6,949**	8,671	8,170	12,482	-	-	-	-
Sea Dragon Energy Inc. - pre combination					494	3,105	2,966	1,789
Madison Petrogas Ltd - pre combination					12,463	19,056	17,936	14,874
Cash, end of period								
SDX Energy Inc. post combination	**4,961**	6,949	8,671	8,170	-	-	-	-
Sea Dragon Energy Inc. - pre combination					490	494	3,105	2,966
Madison Petrogas Ltd - pre combination					11,990	12,463	19,056	17,936
Working capital								
SDX Energy Inc. post combination	**9,593**	8,232	5,414	11,552	-	-	-	-
Sea Dragon Energy Inc. - pre combination					3,911	2,838	2,243	5,055
Madison Petrogas Ltd - pre combination					11,943	13,634	15,028	12,206
Funds from operations								
SDX Energy Inc. post combination	**496**	593	(37)	(934)	-	-	-	-
Sea Dragon Energy Inc. - pre combination					(1,152)	767	282	(1,261)
Madison Petrogas Ltd - pre combination					(744)	1,502	1,868	2,650
Funds from operations per share								
SDX Energy Inc. post combination	**0.01**	0.01	(0.00)	(0.02)	-	-	-	-
Sea Dragon Energy Inc. - pre combination					(0.003)	0.002	0.001	(0.003)
Madison Petrogas Ltd - pre combination					(0.013)	0.027	0.033	0.047
Income/(loss) and comprehensive income/(loss)								
SDX Energy Inc. post combination	**140**	(25,164)	(883)	8,542	-	-	-	-
Sea Dragon Energy Inc. - pre combination					(1,755)	230	(516)	(6,471)
Madison Petrogas Ltd - pre combination					(1,029)	1,110	777	(993)
Net Income/(Loss) per share - basic								
SDX Energy Inc. post combination	**0.002**	(0.455)	(0.023)	0.227	-	-	-	-
Sea Dragon Energy Inc. - pre combination					(0.005)	0.001	(0.001)	(0.017)
Madison Petrogas Ltd - pre combination					(0.013)	0.019	0.018	(0.012)
Capital expenditures								
SDX Energy Inc. post combination	**188**	6,475	5,819	2,404	-	-	-	-
Sea Dragon Energy Inc. - pre combination					781	270	188	(1,204)
Madison Petrogas Ltd - pre combination					797	1,605	313	685
Total assets								
SDX Energy Inc. post combination	**43,901**	47,231	64,907	60,016	-	-	-	-
Sea Dragon Energy Inc. - pre combination					28,258	29,145	38,011	40,283
Madison Petrogas Ltd - pre combination					42,912	44,333	49,425	49,091
Shareholders' equity								
SDX Energy Inc. post combination	**39,161**	38,560	54,457	55,246	-	-	-	-
Sea Dragon Energy Inc. - pre combination					23,925	25,644	25,355	25,828
Madison Petrogas Ltd - pre combination					40,769	41,660	40,403	39,449
Common shares outstanding (000's)								
SDX Energy Inc. post combination	**79,844**	75,934	37,642	37,642	-	-	-	-
Sea Dragon Energy Inc. - pre combination					376,459	376,459	376,459	376,459
Madison Petrogas Ltd - pre combination					56,348	56,348	56,348	56,348
Warrants outstanding (000's)								
SDX Energy Inc. post combination	**-**	611	611	611	-	-	-	-
Madison Petrogas Ltd - pre combination					1,280	1,280	1,280	1,280

Proforma interim financial information (continued)

Summary of quarterly results (continued)

Fiscal year	2016			2015				2014
Operational	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Oil sales (bbl/d)	**510**	554	606	652	674	719	993	1,239
Gas sales (mcf/d)	**-**	-	-	-	-	-	-	-
NGL sales (bbl/d)	**-**	-	-	-	-	-	-	-
Production service fee (bbl/d)	**704**	616	646	704	723	783	832	904
Total boe/d	**1,214**	1,170	1,252	1,356	1,397	1,502	1,825	2,143
Oil sales volumes (bbls)	**46,935**	50,407	55,159	59,988	62,031	65,434	89,403	113,999
Gas sales volumes (mcf)	**-**	-	-	-	-	-	-	-
NGL sales volumes (bbls)	**-**	-	-	-	-	-	-	-
Production service fee volumes (bbls)	**64,792**	56,026	58,823	64,751	66,517	71,216	74,923	83,189
Total sales and service fee volumes (boe)	**111,727**	106,433	113,982	124,739	128,548	136,650	164,326	197,188
Brent oil price (US$/bbl)	**45.78**	45.54	33.73	43.56	50.26	61.72	53.78	76.37
Realized oil price (US$/bbl)	**40.84**	39.90	28.69	38.70	45.91	57.44	48.83	71.18
Realized gas price (US$/mcf)	**-**	-	-	-	-	-	-	-
Realized NGL price (US$/bbl)	**-**	-	-	-	-	-	-	68.45
Realized service fee (US$/bbl)	**28.32**	24.51	20.49	27.90	33.31	40.72	37.57	58.07
Net realized price (US$/boe)	**33.58**	31.80	24.46	33.09	39.39	48.73	43.69	65.65
Royalties (US$/boe)	**7.37**	8.11	5.96	5.50	8.23	14.46	10.62	34.81
Sea Dragon Energy Inc. - pre combination					17.06	30.19	19.53	41.75
Operating costs (US$/boe)	**11.11**	12.12	8.77	19.90	11.41	4.89	8.65	15.88
Sea Dragon Energy Inc. - pre combination					10.49	(5.13)	8.40	17.30
Madison Petrogas Ltd - pre combination					12.27	14.09	8.95	13.94
Netback - (US$/boe)	**15.11**	11.57	9.73	7.69	19.75	29.38	24.42	14.96
Sea Dragon Energy Inc. - pre combination					18.36	32.38	20.90	12.13
Madison Petrogas Ltd - pre combination					21.04	26.63	28.61	44.13