Management Discussion & Analysis

2016 Annual Report

Management's Discussion & Analysis
for the three and twelve months ended December 31, 2016

(prepared in US$)

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 24, 2017 is a review of results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), for the three and twelve months ended December 31, 2016. This MD&A should be read in conjunction with the accompanying Consolidated Financial Statements for the year ended December 31, 2016. In order to provide the reader with a better understanding of the underlying operational performance of the combined business (of Sea Dragon and Madison) for the twelve months ended December 31, 2016 and 2015, this MD&A also includes various sections headed 'Proforma'. These proforma sections include details of the performance of the combined business on a twelve months to December 31, 2016 basis versus a twelve months to December 31, 2015 basis. The proforma sections commence after the completion of the sections of the MD&A based on the Consolidated Financial Statements for the period ended December 31, 2016 which have been prepared under IFRS 3 - Business Combinations.

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

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

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

Forward-Looking Statements

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

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

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

Use of Estimates

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

Business Combination

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

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

In preparing the Consolidated Financial Statements the Company must conform with IFRS 3 – Business Combinations. Given that the former Madison shareholders hold 71% of the combined entity, Madison was treated as the acquirer. This means that in the Consolidated Financial Statements to December 31, 2016, whilst the 2016 figures in the Consolidated Statement of Comprehensive (Loss)/Income relates to the combined entity, the 2015 comparatives contain twelve months of revenue and costs for Madison and only three months of revenue and costs for Sea Dragon.

Post-balance sheet acquisition

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

Non-IFRS measures

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

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

Netback

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

Management's Discussion & Analysis
for the three and twelve months ended December 31, 2016

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SDX Energy's business strategy and work program

SDX's Business

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

Strategy

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

SDX intends to organically increase production and cash flow generation through an active work program consisting of workover and development wells in its existing portfolio in Egypt and Morocco, combined with high impact exploration drilling in Egypt and Morocco. After analyzing its Bakassi West gas discovery in Cameroon, and due to challenging gas market economics, the Company decided to exit the concession and the country. In pursuing this strategy, SDX also intends to leverage its balance sheet, which has been strengthened as a result of its successful US$11 million Placing (less expenses of c. US$1 million) which closed during Q2 2016, its early mover advantage and its regional network to grow through the acquisition of undervalued and/or underperforming producing assets principally in onshore Egypt, while maintaining a strict financial discipline to ensure an efficient use of funds. Subsequent to year end, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc for US$28.1 million after working capital adjustments and raised US$40.0 million (before expenses) to fund this acquisition and to provide additional capital for investment into the enlarged group portfolio. Further detail on this transaction can be found in note 28 to the Consolidated Financial Statements .

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

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

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

2017 Work program

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

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

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

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

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

Operational and financial highlights

In accordance with Canadian industry practice, production volumes and revenues are reported on a Company interest basis, before deduction of royalties. Operational and Financial information contained below represents the IFRS 3 information extracted from the Financial Statements for the years ended December 31, 2016 and 2015.

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

(1) Three months ended September 30, 2016.

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

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

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

Operational and financial highlights (continued)

Oil sales and production service fee revenues

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

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

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

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

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

Variance from prior year

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

$000's	
Three months ended December 31, 2015	2,322
Price variance	253
Production variance	(655)
Three months ended December 31, 2016	**1,920**

Variance from prior quarter

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

$000's	
Three months ended September 30, 2016	1,917
Price variance	161
Production variance	(158)
Three months ended December 31, 2016	**1,920**

Production service fee revenue (relates to Meseda only)

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

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

Variance from prior year

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

$000's	
Three months ended December 31, 2015	1,806
Price variance	202
Production variance	(63)
Three months ended December 31, 2016	**1,945**

Variance from prior quarter

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

$000's	
Three months ended September 30, 2016	1,835
Price variance	175
Production variance	(65)
Three months ended December 31, 2016	**1,945**

Gas and Natural Gas Liquids ("NGLs") sales

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

Direct Operating Costs

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

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

NW Gemsa

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

Block H-Meseda

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

Operational and financial highlights (continued)

Impairment charge

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

The impairment test was carried out in accordance with the accounting policy note stated in note 3. The recoverable amounts of the field has been determined based on a value-in-use calculation. This calculation requires the use of estimates. The present values of future cash flows were computed by applying forecast prices for oil and gas reserves to estimated future production of proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 12.5%. The discount rate used reflects the specific risks relating to the underlying cash generating unit ("CGU").

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

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

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

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

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

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

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

Current Taxes

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

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

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

Capital expenditures

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

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

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

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

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

Property Plant and Equipment

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

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

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

Intangible Exploration and Evaluation Assets

The following table shows the cumulative costs for the intangible exploration and evaluation assets on all the Company's oil and gas properties. Please see note 11 to the Consolidated Financial Statements for further details:

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

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

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

Liquidity and capital resources

Share capital

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

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

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

Liquidity and capital resources (continued)

Share capital (continued)

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

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

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

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

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

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

Stock based compensation

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

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

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

Inventory

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

Capital Resources

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

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

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

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

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

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

$000's	**December 31 2016**	December 31 2015
Current assets		
Cash and cash equivalents	**4,725**	8,170
Trade and other receivables	**9,463**	6,678
Inventory	**1,698**	1,188
Current assets	**15,886**	16,036
Current liabilities		
Trade and other payables	**3,674**	3,556
Current income taxes	**389**	928
Current liabilities	**4,063**	4,484
Working capital	**11,823**	11,552

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

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

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

Liquidity and capital resources (continued)

Capital Resources (continued)

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

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

Financial instruments

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

Market risk

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

Commodity price risk

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

At December 31, 2016 the Company did not have any outstanding derivatives in place.

Foreign currency risk

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

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

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

(1) denotes Financial Statements

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

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

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

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

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

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

Trade and other payables

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

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

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

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

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

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

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

Credit risk

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

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

Trade and other receivables

All of the Company's operations as at December 31, 2016 were conducted in Egypt. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company does not anticipate any default as it expects continued payment from customers.

Liquidity and capital resources (continued)

Financial instruments (continued)

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

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

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

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

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

	Carrying amount	
$000's	**December 31 2016**	December 31 2015
Current		
Current (less than 90 days)	**6,863**	3,364
Past due (more than 90 days)	**2,600**	3,314
Total trade and other receivables	**9,463**	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 decreased by US$0.7 million when compared to December 31, 2015. This decrease is primarily due to the collection of US$1.0 million of the Shukheir Marine receivables as explained above.

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

Cash and cash equivalents

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

Capital management

The Company defines and computes its capital as follows:

	Carrying amount	
$000's	**December 31 2016**	December 31 2015
Equity	**37,264**	55,246
Working capital (1)	**(11,823)**	(11,552)
Total capital	**25,441**	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, 2016.

Accounting policies

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

Further information on the accounting policies and estimates can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2016.

New standards and interpretations

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

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

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

IFRS 9 – Financial Instruments ("IFRS 9")
In July 2014, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments – Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual Consolidated Financial Statements commencing January 1, 2018. The Company does not expect this standard to have a significant impact on its Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued in May 2014 and will provide a more structured approach to measuring and recognizing revenue. The new guidance includes a five-step recognition and measurement approach and enhanced qualitative disclosure requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for interim and annual periods beginning on or after January 1, 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures (simplified transition method). The Company does not expect this standard to have a significant impact on its Consolidated Financial Statements.

IFRS 16 – Leases ("IFRS 16")
On January 13, 2016, the IASB published IFRS 16 which replaces the current guidance in IAS 17. IFRS 16 requires lessees to recognize a lease liability reflecting the future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard applies to interim and annual periods beginning on or after January 1, 2019 with earlier application permitted if IFRS 15 is applied. The Company does not expect this standard to have a significant impact on its Consolidated Financial Statements.

Future changes in accounting policies

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

Management's Discussion & Analysis
for the three and twelve months ended December 31, 2016

(prepared in US$)

Business risk assesment

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

Political Risk

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

Financial Resources

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

Exploration, Development and Production

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

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

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

Oil and Natural Gas Prices

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

Reserve Estimates

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

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

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

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

Reliance on Operators and Key Employees

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

Government Regulations

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

Environmental Factors

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

Insurance

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

Business risk assesment (continued)

Regulatory Matters

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

Operating Hazards and Risks

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

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

Repatriation of earnings

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

Disruptions in Production

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

Foreign Investments

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

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

Competition

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

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

Disclosure Controls and Procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the period ended December 31, 2016. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109 as at December 31, 2016.

Proforma financial information

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

Income Statement Reconciliation

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

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

Income Statement Reconciliation (continued)

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

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

Proforma financial information

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

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

Consolidated Statement of Comprehensive (Loss)/Income

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

Management's Discussion & Analysis
for the three and twelve months ended December 31, 2016

(prepared in US$)

Proforma financial information (continued)

Operational and financial highlights

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

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

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

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

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

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

Production Service Fee volumes (relates to Meseda only)

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

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

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

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

Pricing

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

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

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

During the twelve months ended December 31, 2016 the Brent price ranged from a low of US$26.01 per barrel on January 20, 2016 to a high of US$54.96 per barrel on December 30, 2016. The current low oil price environment is due to over-supply in the market particularly from OPEC countries and US shale producers, the lifting of trade sanctions on Iran, and lower demand as a result of slower growth in countries such as China. At this time, the Company does not hedge any of its production.

The Company commenced sales of gas and NGLs in February 2013 from the NW Gemsa concession, however recognition of this revenue was delayed pending resolution of a dispute with EGPC over entitlement volumes and pricing. This was resolved such that US$1.2 million of gas sales and US$1.3 million of NGL sales were recognized in Q4 2016, net of royalties, covering the period February 2013 – December 2016.

Crude Oil Sales

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

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

Proforma financial information (continued)

Crude Oil Sales (continued)

The crude oil sales per concession were:

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

Variance from prior year

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

As explained above the decrease in the sales volume compared to the prior year is due to the relinquishment of the Shukheir Marine concession effective January 31, 2015 and the decline of the NW Gemsa concession after reaching plateau production during Q4, 2014.

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

Production Service Fees

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

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

Variance from prior year

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

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

Gas and Natural Gas Liquids ("NGL") sales

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

Royalties

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

Royalties for crude oil sales per concession are as follows:

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

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

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

The Concession agreements allow for the recovery of operating and capital costs through a cost oil allocation which has an impact on the government share of production as highlighted below (as at December 31, 2016 and 2015):

Concession	**SDX Energy WI (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

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

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

The direct operating costs per concession were:

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

The direct operating costs per boe per concession were:

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

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

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

Proforma financial information (continued)

Current taxes

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

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

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

The current taxes per concession were:

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

General and administrative costs

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

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

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

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

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

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

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

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

The DD&A per concession was:

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

Net Earnings

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

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

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

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(prepared in US$)

Proforma financial information (continued)

Summary of quarterly results

The fiscal and operational quarterly results shown below include full quarterly information for SDX Energy Inc., formerly Sea Dragon Energy Inc. and Madison Petrogas Ltd prior to the business combination (pre-combination), effective October 1, 2015. The quarterly results for Q4, Q3, Q2 and Q1, 2016 and Q4, 2015 represent the quarters for the newly combined group, SDX Energy Inc. post-combination. SDX Energy Inc., formerly Sea Dragon Energy Inc. produces and sells via its concession agreement, oil, gas and NGL. Madison has a production service agreement and obtains a per barrel service fee.

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

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