FINANCIAL STATEMENTS

Interim Consolidated Balance Sheet (Unaudited)

(thousands of United States dollars)	NOTE	AS AT MARCH 31, 2016	AS AT DECEMBER 31, 2015
Assets			
Cash and cash equivalents	*5*	**8,671**	8,170
Trade and other receivables	*6*	**5,719**	6,678
Inventory		**1,188**	1,188
Current assets		**15,578**	16,036
Investments	*9*	**2,453**	2,106
Property, plant and equipment	*7*	**18,019**	18,401
Intangible exploration and evaluation assets	*8*	**28,857**	23,473
Non-current assets		**49,329**	43,980
Total Assets		**64,907**	60,016
Liabilities			
Trade and other payables	*10*	**9,204**	3,556
Current income taxes	*16*	**960**	928
Current liabilities		**10,164**	4,484
Deferred income taxes		**286**	286
Non-current liabilities		**286**	286
Total Liabilities		**10,450**	4,770
Equity			
Share capital	*11*	**30,148**	30,148
Warrants	*11*	**99**	99
Contributed surplus		**5,269**	5,175
Other comprehensive loss		**(1,154)**	(1,154)
Retained Earnings		**20,095**	20,978
Equity		**54,457**	55,246
Equity and Liabilities		**64,907**	60,016

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

Approved on behalf of the Board of Directors.

Paul M Welch

Paul Welch
Chief Executive Officer

Mark Reid

Mark Reid
Chief Financial Officer

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

(thousands of United States dollars, except per share data)	NOTE	THREE MONTHS ENDED MARCH 31 2016	 2015
Revenue, net of royalties	*13*	**2,110**	2,815
Revenue		**2,110**	2,815
Direct operating expense		**999**	671
Depletion, depreciation and amortization	*7*	**817**	451
Stock based compensation	*12*	**94**	177
Equity in income of associate	*9*	**(347)**	(280)
General and administrative expenses	*14*	**860**	534
Operating (Loss)/Income		**(313)**	1,262
Net finance expense	*15*	**364**	(209)
(Loss)/income before income taxes		**(677)**	1,471
Current income tax expense	*16*	**206**	502
Deferred income tax (credit)/expense		**–**	(17)
Total Current and Deferred income tax expense		**206**	485
Net (loss)/income		**(883)**	986
Other comprehensive loss			
Foreign exchange		**–**	209
Total comprehensive (loss)/income for the period		**(883)**	777
Net (loss)/income per share			
Basic	*17*	**$(0.023)**	$0.018
Diluted	*17*	**$(0.023)**	$0.016

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

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	THREE MONTHS ENDED MARCH 31 2016	 2015
Share capital		
Balance, beginning of period	**30,148**	24,512
Balance, end of period	**30,148**	24,512
Warrants		
Balance, beginning of period	**99**	99
Balance, end of period	**99**	99
Contributed Surplus		
Balance, beginning of period	**5,175**	4,414
Share based payments for the period	**94**	177
Balance, end of period	**5,269**	4,591
Accumulated Other Comprehensive Loss		
Balance, beginning of period	**(1,154)**	(507)
Foreign currency translation adjustment for the period	**–**	(209)
Balance, end of period	**(1,154)**	(716)
Retained Earnings		
Balance, beginning of period	**20,978**	10,931
Net (loss)/income for the period	**(883)**	986
Balance, end of period	**20,095**	11,917
Total Equity	**54,457**	40,403

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

Interim Consolidated Statement of Cash Flows (Unaudited)

(thousands of United States dollars)	NOTE	THREE MONTHS ENDED MARCH 31 2016	 2015
Cash flows from/(used in) operating activities			
Income before income taxes		**(677)**	1,471
Adjustments for:			
Depletion, depreciation and amortization	7	**817**	451
Finance costs	15	**76**	49
Stock-based compensation	12	**94**	177
Equity in income of associate	9	**(347)**	(280)
Operating cash flow before working capital movements		**(37)**	1,868
(Increase)/decrease in trade and other receivables		**977**	940
Increase/(decrease) in trade and other payables		**853**	(936)
Net cash from operating activities		**1,793**	1,872
Cash flows used in investing activities:			
Property, plant and equipment expenditures	7	**–**	(138)
Exploration and evaluation expenditures	8	**(918)**	(175)
Net cash used in investing activities		**(918)**	(313)
Cash flows used in financing activities:			
Finance costs paid		**(93)**	(48)
Net cash used in financing activities		**(93)**	(48)
Change in cash and cash equivalents		**782**	1,511
Effect of foreign exchange on cash and cash equivalents		**(281)**	(390)
Cash and cash equivalents, beginning of period		**8,170**	17,935
Cash and cash equivalents, end of period		**8,671**	19,056

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

Note 1 Reporting entity

SDX Energy Inc. ("SDX" or "the Company"), is a company domiciled in Canada. The address of the Company's registered office is 1900, 520 – 3rd Avenue SW, Centennial Place, East Tower, Calgary, Alberta T2P 0R3. The interim unaudited consolidated financial statements of the Company as at and for the three months ended March 31, 2016 and 2015 comprise the Company and its wholly owned subsidiaries and associates. The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others. These consolidated interim unaudited financial statements reflect only the Company's proportionate interest in such activities. The Company's principle properties are located in the Arab Republic of Egypt and the Republic of Cameroon.

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

Note 2 Basis of preparation and accounting policies

Statement of compliance

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

These condensed interim unaudited Consolidated Financial Statements of SDX Energy Inc. were approved by the Audit Committee on May 24, 2016.

Accounting policies

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

Going concern

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

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

Note 3 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of financial instrument valuation methods have been defined as follows:

Level 1 Fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 Fair value measurements are based on unobservable information.

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings included in the interim unaudited consolidated balance sheet approximate to their fair value due to the short term nature of those instruments.

Stock options

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

Note 4 Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- market risk;
- foreign currency risk; and
- other price risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these interim unaudited consolidated financial statements.

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

(b) Credit risk

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

	CARRYING AMOUNT	
	MARCH 31, 2016	DECEMBER 31, 2015
Cash and cash equivalents	**8,671**	8,170
Trade and other receivables	**5,719**	6,678
Total	**14,390**	14,848

Trade and other receivables:

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

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

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

	CARRYING AMOUNT	
	MARCH 31, 2016	DECEMBER 31, 2015
Current		
Government of Egypt controlled corporations	**4,921**	5,018
Joint venture partners	**–**	862
Other	**798**	798
Total trade and other receivables	**5,719**	6,678

Current receivables of US$4.9 million related to oil sales and production service fees which are due from EGPC (December 31, 2015: US$5.0 million), a Government of Egypt controlled corporation. Receivables in respect of oil sales and service fees are normally collected in one to two months following production. The Company expects to collect outstanding receivables of US$1.0 million for NW Gemsa and US$0.9 million for Block – H Meseda, in the normal course of operations; the remaining US$3.0 million being the pledged Shukheir Marine receivables. The Shukheir Marine trade receivables of US$3.0 million relate to invoices withheld as a rolling production guarantee for the work program of the South Disouq concession. Please see Note 6 for further details.

The other receivables of US$0.8 million consist of US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.3 million related to prepayments, US$0.1 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US$0.2 million for other items.

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

	CARRYING AMOUNT	
$000's	**MARCH 31, 2016**	DECEMBER 31, 2015
Current		
Current (less than 90 days)	**2,241**	3,364
Past due (more than 90 days)	**3,478**	3,314
Total - current	**5,719**	6,678

The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have increased by US$0.2 million when compared to December 31, 2015. This increase is due to NW Gemsa Q4 2015 unrecovered cost oil.

Subsequent to March 31, 2016 the Company collected US$0.5 million from a government of Egypt controlled corporation for NW Gemsa receivables, thereby reducing the current (less than 90 days) balance.

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 by banks with A or AA credit ratings, therefore management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

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

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political unrest. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on projects to further manage capital expenditure and has a Board of Directors' approved signing authority matrix. The Company also attempts to match its payment cycle with collection of oil and service fee revenue to the extent possible.

As at March 31, 2016, the Company's financial liabilities are due within one year.

(d) Market risk

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

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

(e) Foreign currency risk

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

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

	TOTAL PER FS[1]	US$	EGP	EUR	CAD	GBP
As at March 31, 2016	*US$ EQUIVALENT*					
Cash and cash equivalents	8,671	6,624	1,693	96	42	216
Trade and other receivables	5,719	5,241	81	12	76	309
Trade and other payables	(9,204)	(8,611)	(8)	(47)	(267)	(271)
Current income taxes	(960)	–	(960)	–	–	–
Balance sheet exposure	4,226	3,254	806	61	(149)	254

[1] *denotes Financial Statements*

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

AVERAGE: January 1, 2016 to March 31, 2016	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.3731	0.6981	0.9066	7.9778

AVERAGE: January 1, 2015 to March 31, 2015	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.2383	0.6597	0.8871	7.4745

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

PERIOD END: March 31, 2016	USD/CAD	USD/GBP	USD/EUR	USD/EGP
March 31, 2016	1.2967	0.6959	0.8805	8.8576

PERIOD END: March 31, 2015	USD/CAD	USD/GBP	USD/EUR	USD/EGP
March 31, 2015	1.2699	0.6754	0.9282	7.6057

(f) Other price risk

Other price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the United States dollar and other currencies but also macro-economic events that impact the perceived levels of supply and demand.

The Company may hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company's production is sold on the daily average price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts.

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

(g) Capital management:

The Company defines and computes its capital as follows:

	CARRYING AMOUNT	
$000's	**MARCH 31, 2016**	DECEMBER 31, 2015
Equity	**54,457**	55,246
Working capital [1]	**(5,414)**	(11,552)
Total capital	**49,043**	43,694

[1] *Working capital is defined as current assets less current liabilities.*

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

Note 5 Cash and cash equivalents

	CARRYING AMOUNT	
	MARCH 31, 2016	DECEMBER 31, 2015
Bank balances	**8,671**	8,170
Cash and cash equivalents	**8,671**	8,170

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

Note 6 Trade and other receivables

	CARRYING AMOUNT	
	MARCH 31, 2016	DECEMBER 31, 2015
Current		
Trade receivables	**4,921**	5,018
Other receivables	**798**	1,660
	5,719	6,678

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

Trade receivables of US$4.9 million comprise US$1.0 million of crude oil sales invoices for the NW Gemsa concession, US$0.9 million of service fee invoices for Block-H Meseda and US$3.0 million of pledged Shukheir Marine oil invoices.

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

The other receivables of US$0.8 million include: US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.3 million related to prepayments, US$0.1 million for GST/ VAT and US$0.2 million for other items.

Subsequent to March 31, 2016 the Company collected US$0.5 million from a government of Egypt controlled corporation for NW Gemsa trade receivables.

Note 7 Property, plant and equipment

	OIL INTERESTS	FURNITURE AND FIXTURES	TOTAL
Cost:			
Balance at December 31, 2014	**12,824**	**174**	**12,998**
Additions	1,375	17	1,392
Acquisitions	16,679	68	16,747
Foreign currency revaluation	–	(32)	(32)
Decommissioning provision	(208)	–	(208)
Disposals	–	(8)	(8)
Assets scrapped	(7)	(99)	(106)
Balance at December 31, 2015	**30,663**	**120**	**30,783**
Additions	435	–	435
Balance at March 31, 2016	**31,098**	**120**	**31,218**
Accumulated depletion and depreciation:			
Balance at December 31, 2014	**(3,478)**	**(128)**	**(3,606)**
Depletion and depreciation for the year	(2,014)	(43)	(2,057)
Foreign currency revaluation	–	28	28
Impairment for the year	(6,842)	–	(6,842)
Assets scrapped	–	95	95
Balance at December 31, 2015	**(12,334)**	**(48)**	**(12,382)**
Depletion and depreciation for the year	**(803)**	**(14)**	**(817)**
Balance at March 31, 2016	**(13,137)**	**(62)**	**(13,199)**
NBV Property, plant and equipment as at December 31, 2015	**18,329**	**72**	**18,401**
NBV Property, plant and equipment as at March 31, 2016	**17,961**	**58**	**18,019**

During the period ended March 31, 2016 the Company had PP&E additions of US$0.4 million; which related to the NW Gemsa concession.

The NW Gemsa additions were for the drilling of Al Amir SE-23 (US$0.2 million) and Al Amir SE-24 (US$0.1 million) and the allocation to PP&E of admin expenditure (US$0.1 million).

At March 31, 2016 for the purposes of the depletion calculation, US$2.9 million (December 31, 2015 – US$4.1 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Note 8 Intangible exploration and evaluation assets

Balance at December 31, 2014	**16,460**
Additions	3,728
Acquisitions	3,267
Unsuccessful well effort	18
Balance at December 31, 2015	**23,473**
Additions	5,384
Balance at March 31, 2016	**28,857**

Intangible exploration and evaluation ("E&E") additions of US$5.4 million for 2016 consist of US$5.1 million in relation to the West Bakassi block in Cameroon ("West Bakassi") and US$0.3 million in relation to the South Disouq concession.

The additions for West Bakassi consisted of well planning and drilling costs for the Manatee-1 exploration well (US$4.8 million), other direct costs including G&G (US$0.2 million) and general overheads (US$0.1 million).

The additions for South Disouq consisted of crew and equipment mobilization for the 3D seismic program which commenced on February 9, 2016.

Note 9 Investments

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

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

	MARCH 31, 2016	DECEMBER 31, 2015
Investments, beginning of year	**2,106**	1,999
Dividends received	**–**	(917)
Share of operating income	**347**	1,024
Investments, end of year	**2,453**	2,106

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

SDX Energy share (50%) of Brentford:	MARCH 31, 2016	DECEMBER 31, 2015
Total assets	**2,814**	2,469
Total liabilities	**315**	316
Revenue	**403**	1,816
Net Income	**347**	1,024

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

Note 10 Trade and other payables

	CARRYING AMOUNT	
	MARCH 31, 2016	DECEMBER 31, 2015
Current		
Trade Payables	**171**	198
Accruals	**953**	1,284
Other payables	**8,080**	2,074
	9,204	3,556

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

Trade payables of US$0.2 million are due to suppliers of the Company's corporate office.

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

Other payables of US$8.1 million comprise an estimated liability of US$1.1 million related to the relinquishment of the Shukheir Marine concession, partner current accounts of US$6.8 million for NW Gemsa (US$0.7 million), Cameroon (US$4.8 million), Block-H Meseda (US$0.3 million) and South Disouq (US$1.0 million) concessions and UK payroll taxes and deferred payroll of US$0.2 million.

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

Note 11 Share capital

(a) The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value.

(b) Common Shares issued

	MARCH 31, 2016		DECEMBER 31, 2015	
	NUMBER OF SHARES (000'S)	**STATED VALUE ($000'S)**	NUMBER OF SHARES (000'S)	STATED VALUE ($000'S)
Balance, beginning of year	**37,642**	**30,148**	56,348	24,512
Business combination	**–**	**–**	(29,462)	–
Share for share exchange	**–**	**–**	10,756	5,636
Balance, end of year	**37,642**	**30,148**	37,642	30,148
Weighted average shares outstanding	**37,642**		51,633	

(c) Common Share Warrants issued

	MARCH 31, 2016		DECEMBER 31, 2015	
	NUMBER OF SHARES (000'S)	**STATED VALUE ($000'S)**	NUMBER OF SHARES (000'S)	STATED VALUE ($000'S)
Balance, beginning of year	**611**	**99**	1,280	99
Business combination	**–**	**–**	(669)	–
Balance, end of year	**611**	**99**	611	99

The warrants have an expiry date of July 27, 2016.

Note 12 Stock-based compensation

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

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

For the period ended March 31, 2016 the Company recorded non-cash stock based compensation of US$0.1 million (2015 – US$0.2 million).

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

	NUMBER OF OPTIONS *(000'S)*	WEIGHTED AVERAGE EXERCISE PRICE *(CDN$)*
Outstanding January 1, 2015	**4,950**	**0.92**
Cancelled during the year	(4,950)	0.92
Issued during the year	2,650	0.63
Outstanding December 31, 2015	**2,650**	**0.63**
Exercisable December 31, 2015	**883**	**0.63**
Outstanding March 31, 2016	**2,650**	**0.63**
Exercisable March 31, 2016	**883**	**0.63**

The range of exercise prices of the outstanding options is as follows:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
EXERCISE PRICE RANGE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE
$0.063	2,650,000	4.7 years	883,325	4.7 years

Note 13 Revenue, net of royalties

	THREE MONTHS ENDED MARCH 31	
	2016	2015
Oil revenue	**1,583**	–
Royalties	**(679)**	–
Oil revenue, net of royalties	**904**	–
Production service fees	**1,206**	2,815
Total net revenue before tax	**2,110**	2,815

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

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

The operator continues to be in the process of addressing contractual invoicing with EGPC in relation to gas and liquids. No revenue or sales volumes have been recognized for the period ended March 31, 2016; pending issuance of invoices.

Note 14 General and Administrative expenses

		THREE MONTHS ENDED MARCH 31	
$000's	PRIOR QUARTER	**2016**	2015
Wages and employee costs	1,063	**553**	192
Consultants - inc. PR/IR	265	**46**	110
Legal fees	113	**34**	7
Audit, tax and accounting services	209	**60**	73
Public company fees	228	**54**	–
Travel	86	**43**	45
Office expenses	243	**147**	99
IT expenses	38	**46**	8
Transaction costs	–	**–**	–
Service recharges	(669)	**(123)**	–
Total - Net G&A	1,576	**860**	534

General and administrative ("G&A") costs for the three months ended March 31, 2016 were US$0.9 million, which represented an increase of US$0.3 million compared to 2015.

Note 15 Net Financing costs

	CARRYING AMOUNT	
	MARCH 31, 2016	DECEMBER 31, 2015
Interest and bank charges	**76**	48
Foreign exchange loss/(gain) - realized	**288**	(258)
Accretion of decommissioning provisions	**–**	1
Net Financing Expense	**364**	(209)

The interest and bank charges of US$0.1 million consist of finance fees from EDBE bank to provide a factoring facility for the Block-H Meseda monthly production service fees invoices and monthly bank charges.

Note 16 Income tax

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

The Company also has a PSA related to Block-H Meseda with legal title residing with Madison Egypt Limited ("Madison Egypt"), an Egyptian incorporated entity. The Company is governed by the laws and tax regulations of the Arab Republic of Egypt and pays corporate taxes on the adjusted profit of Madison Egypt.

The current income tax expense in the Statement of Comprehensive Income for the 3 months to 31 March 2016 relates to income tax on North West Gemsa's PSC which is paid by a government controlled corporation and income tax relating to the Company's PSA in Block-H Meseda which it is liable to pay itself. With regards to the 3 months to 31 March 2015 the income tax expenses only relates to the Company's PSA in Block-H Meseda.

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

Note 17 Income per share

	THREE MONTHS ENDED MARCH 31	
	2016	2015
Net income before other comprehensive income for the year	**(883)**	986
Weighted average number of shares *(000's)*		
Basic	**37,642**	56,348
Diluted	**37,642**	62,578
Per share amount		
Basic	**$(0.023)**	$0.018
Diluted	**$(0.023)**	$0.016

Basic income per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-forma exercise of in-the-money stock options or warrants are used to purchase common shares at average market prices. At March 31, 2016 the strike price of such instruments was above the average market share price, therefore they became anti-dilutive which resulted in a diluted EPS equal to the basic EPS.

Note 18 Segmental Reporting

Functional segments

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

	THREE MONTHS ENDED MARCH 31, 2016			THREE MONTHS ENDED MARCH 31, 2015		
	CORPORATE	**OPERATIONS**	**TOTAL**	CORPORATE	OPERATIONS	TOTAL
Revenue	**–**	**2,110**	**2,110**	–	2,815	2,815
Direct operating expenses	**–**	**999**	**999**	–	671	671
Depletion, depreciation and amortization	**12**	**805**	**817**	3	448	451
Stock based compensation	**94**	**–**	**94**	177	–	177
Equity in income of associate	**–**	**(347)**	**(347)**	–	(280)	(280)
General and administrative expenses	**642**	**218**	**860**	512	22	534
Operating (loss)/income	**(748)**	**435**	**(313)**	(692)	1,954	1,262
Net finance expense	**20**	**344**	**364**	(312)	103	(209)
(Loss)/income before income taxes	**(768)**	**91**	**(677)**	(380)	1,851	1,471
Current income tax expense	**–**	**206**	**206**	–	502	502
Deferred income tax expense	**–**	**–**	**–**	–	(17)	(17)
Total current and deferred income tax expense	**–**	**206**	**206**	–	485	485
Net (loss)/income after income taxes	**(768)**	**(115)**	**(883)**	(380)	1,366	986
Other comprehensive loss - foreign exchange	**–**	**–**	**–**	209	–	209
Comprehensive (loss)/income for the period	**(768)**	**(115)**	**(883)**	(589)	1,366	777

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

	MARCH 30, 2016			DECEMBER 31, 2015		
	CORPORATE	**OPERATIONS**	**TOTAL**	CORPORATE	OPERATIONS	TOTAL
Segment assets	**5,807**	**59,100**	**64,907**	5,505	54,511	60,016
Segment liabilities	**897**	**9,553**	**10,450**	1,249	3,521	4,770

The segment capital expenditures for the period ended March 31, 2016 and 2015 are as follows:

	THREE MONTHS ENDED MARCH 31, 2016			THREE MONTHS ENDED MARCH 31, 2015		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Capital additions - PP&E oil interests	**–**	**435**	**435**	–	136	136
Capital additions - intangible exploration and evaluation assets	**–**	**5,384**	**5,384**	–	175	175
Capital additions - office assets	**–**	**–**	**–**	2	–	2

Note 19 Commitments:

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

The commitments relate to a 3D seismic campaign and the drilling of one exploration well for South Disouq (US$6.0 million), the drilling of one development well and facilities upgrade for South Ramadan (US$2.9 million), the drilling of one development well for Block-H Meseda (US$0.1 million) and the drilling of one exploration well in Bakassi West – Cameroon (US$6.3 million).

The work program for South Disouq is secured by a US$3.0 million withholding of Shukheir Marine receivables.

The development well for Block-H Meseda, is secured by a deposit of US$0.1 million withheld from the Company's service fee revenue.

The work program for Bakassi West – Cameroon is secured by a Parent Company Guarantee ("PCG") of US$7.0 million with the commitment as at March 31, 2016 being US$6.3 million.

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

	MARCH 31, 2016	DECEMBER 31, 2015
Less than one year	**12,404**	13,677
Between one and five years	**2,933**	2,933
	15,337	16,609

Non-cancellable office leases

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

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

	MARCH 31, 2016	DECEMBER 31, 2015
Less than one year	**337**	302
Between one and five years	**835**	813
More than five years	**–**	–
	1,172	1,115

Note 20 Subsequent Events

On May 20, 2016 the Company completed an US$11 million equity Placing (less expenses of c. US$1 million) and commenced trading on the AIM market of the London Stock Exchange.