Madison PetroGas Ltd.

Consolidated Financial Statements

For the nine months ended September 30, 2015 and 2014

(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the unaudited interim condensed consolidated financial statements(“financial statements”), they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of unaudited interim condensed consolidated financial statements by an entity’s auditor.

Madison PetroGas Ltd.
Consolidated Balance Sheets
(amounts in US dollars)

	Notes	September 30, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		**$ 11,990,528**	$ 17,934,924
Accounts receivable		**1,548,037**	3,305,916
Prepaid expenses and deposits		**-**	-
		13,538,565	21,240,840
Investments	7	**2,003,735**	1,998,554
Exploration and evaluation assets	5	**17,768,796**	16,459,710
Property and equipment	6	**9,600,704**	9,391,979
		$ 42,911,800	$ 49,091,083
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 1,595,754**	$ 6,827,998
Debentures	8	**-**	2,206,720
		1,595,754	9,034,718
Decommissioning provision	10	**251,712**	216,660
Deferred income taxes	9	**295,630**	390,783
		2,143,096	9,642,161
Shareholders' equity			
Common shares	11	**24,512,494**	24,512,494
Warrants	11	**99,400**	99,400
Contributed surplus	12	**4,874,609**	4,413,580
Other comprehensive income		**(996,074)**	(507,406)
Retained earnings		**12,278,275**	10,930,854
		40,768,704	39,448,922
		$ 42,911,800	$ 49,091,083
Commitments	18		
Subsequent Events	19		

See accompanying notes to the consolidated financial statements.

Approved by the Board,

Per: (signed) "*Michael Doyle*"
Director

Per: (signed) "*David Mitchell*"
Director

Madison PetroGas Ltd.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(amounts in US dollars)

	Notes	Three Months Ended Sept 30, 2015	Three Months Ended Sept 30, 2014	Nine Months Ended Sept 30, 2015	Nine Months Ended Sept 30, 2014
Revenue					
Production service fees		**$ 2,215,351**	$ 6,797,444	**$ 7,930,113**	$ 19,702,485
Finance income	13	**3,437**	995	**11,342**	5,366
		2,218,788	6,798,439	**7,941,455**	19,707,851
Expenses					
Operating and transportation		**761,326**	891,726	**2,329,891**	2,328,587
Exploration		**-**	-	**-**	-
General and administrative	15	**2,074,122**	911,772	**3,353,425**	2,066,661
Stock based compensation	12	**138,241**	251,749	**461,029**	746,290
Finance costs	13	**(145,784)**	440,971	**(574,154)**	810,305
Equity in (income) loss of associate	7	**(285,782)**	(288,163)	**(922,495)**	(958,355)
Depletion and depreciation		**332,580**	428,433	**1,219,919**	1,111,094
		2,874,703	2,636,488	**5,867,615**	6,104,582
Income (loss) before income taxes		**(655,915)**	4,161,951	**2,073,840**	13,603,269
Current income taxes	9	**55,410**	1,944,104	**821,871**	4,472,389
Deferred income taxes	9	**(5,822)**	78,751	**(95,153)**	123,078
		49,588	2,022,855	**726,718**	4,595,467
Net income (loss)		**(705,503)**	2,139,096	**1,347,122**	9,007,802
Other comprehensive income – foreign exchange		**(323,819)**	(226,109)	**(488,669)**	(79,275)
Income (loss) and comprehensive income (loss)		**$ (1,029,322)**	$ 1,912,987	**$ 858,453**	$ 8,928,527

	Notes	Three Months Ended Sept 30, 2015	Three Months Ended Sept 30, 2014	Nine Months Ended Sept 30, 2015	Nine Months Ended Sept 30, 2014
Income (loss) per share					
Basic	11b	**$ (0.013)**	$ 0.038	**$ 0.024**	$ 0.160
Diluted	11b	**$ (0.011)**	$ 0.034	**$ 0.021**	$ 0.145

See accompanying notes to the consolidated financial statements.

Madison PetroGas Ltd.

Consolidated Statements of Changes in Shareholders' Equity

(amounts in US dollars)

	Notes	Nine months ended Sept 30, 2015	Nine months ended Sept 30, 2014
Common Shares			
Balance, beginning of period		**$ 24,512,494**	$ 24,512,494
Issuance of common shares		**-**	-
Balance, end of period		**24,512,494**	24,512,494
Common Share Warrants			
Balance, beginning of period		**99,400**	99,400
Issuance of warrants		**-**	-
Balance, end of period		**99,400**	99,400
Contributed Surplus			
Balance, beginning of period		**4,413,580**	3,349,528
Stock based compensation		**461,029**	746,290
Balance, end of period		**4,874,609**	4,095,818
Accumulated Other Comprehensive Income			
Balance, beginning of period		**(507,406)**	(87,041)
Foreign currency translation		**(488,669)**	(79,275)
Balance, end of period		**(996,074)**	(166,316)
Retained Earnings			
Balance, beginning of period		**10,930,854**	2,575,050
Net income		**1,347,122**	9,007,802
Balance, end of period		**12,278,275**	11,582,852
Total Equity			
Balance, beginning of period		**39,448,922**	30,449,431
Current period change		**1,319,782**	9,674,816
Balance, end of period		**$ 40,768,704**	$ 40,124,247

See accompanying notes to the consolidated financial statements.

Madison PetroGas Ltd.

Consolidated Statements of Cash Flows

(amounts in US dollars)

	Notes	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash provided by (used in):			
Operating activities			
Income and comprehensive income		**$ 858,453**	$ 8,928,527
Items not involving cash:			
Deferred income taxes		**(95,153)**	123,078
Equity in income of associate		**(922,495)**	(958,355)
Foreign currency translation		**270,045**	79,275
Finance costs		**3,173**	31,600
Depletion and depreciation		**1,219,919**	1,111,094
Stock based compensation		**461,029**	746,290
Change in non-cash working capital	14	**(3,446,903)**	9,835,442
Cash flow from (used in) operating activities		**(1,651,932)**	19,896,951
Financing activities			
Issuance (repayment) of debentures	8	**(2,052,352)**	-
Change in non-cash working capital	14	**-**	-
Cash flow used in financing activities		**(2,052,352)**	-
Investing activities			
Property and equipment expenditures	6	**(1,406,227)**	(1,869,152)
Exploration and evaluation expenditures	5	**(1,309,086)**	(11,080,032)
Investment in associate	7	**917,315**	702,936
Change in non-cash working capital	14	**(27,463)**	1,878,294
Cash flow used in investing activities		**(1,825,461)**	(10,367,954)
Cash inflow (outflow)		**(5,529,745)**	9,528,997
Cash and cash equivalents, beginning of period		**17,934,924**	5,542,796
Effect of foreign exchange on cash balances		**(414,651)**	(198,293)
Cash and cash equivalents, end of period		**$11,990,528**	$14,873,500

See accompanying notes to the consolidated financial statements.

1. General business description

Madison PetroGas Ltd. ("Madison" or the "Company") is engaged in the exploration for and development of oil and natural gas properties internationally. Madison PetroGas Ltd. is a privately owned company, incorporated and domiciled in Alberta, Canada. Madison's subsidiaries include entities that are domiciled in Egypt and Barbados. These consolidated financial statements include the results of Madison and all of its subsidiaries. The head office is located in Calgary, Alberta at 1610, 140 – 4th Ave SW, Calgary, AB T2P 3N3. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 23rd, 2015.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements present Madison's financial results as at and for the nine month period ended September 30, 2015, including 2014 comparative periods. They have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee. A summary of Madison's significant accounting policies under IFRS is presented in note 3. These consolidated financial statements should be read in conjunction with Madison's annual consolidated financial statements for the year ended December 31, 2014.

(b) Basis of measurement

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal operating subsidiaries are Madison Egypt Limited, domiciled in Egypt, and Madison Cameroon Oil and Gas Ltd, domiciled in Barbados. The consolidated financial statements are prepared using the historical cost convention, as modified for revaluation in certain circumstances, which is further discussed in these notes.

These consolidated financial statements are presented in US dollars ("US$"), which the Company has chosen as its presentation currency. The US dollar is also the functional currency of each of Madison's subsidiaries, while the Canadian dollar ("CDN$") is the functional currency of Madison PetroGas Ltd. In order to prepare the US dollar consolidated financial statements, the Company revalues the Canadian dollar assets and liabilities of Madison PetroGas Ltd at period end exchange rates, equity balances at historical exchange rates and income statement items at period average rates. All exchange differences resulting from this translation are recorded as other comprehensive income.

The preparation of financial statements under IFRS requires the use of critical estimates and judgments by management in applying its accounting policies. Discussion of significant estimates and measurement uncertainty is included in note 4.

Substantially all of the Company's exploration and production activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

(b) Exploration and evaluation expenditures and property and equipment

(i) Exploration and evaluation assets

Pre-licence expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

Exploration and evaluation expenditures include the costs of acquiring licences, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist. Expired leases are charged directly to income in the period of expiry and recorded as additional depletion expense.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment.

Exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in net income.

(ii) Property and equipment

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas properties and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined, including property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in net income.

(iii) Depletion and depreciation

Oil and natural gas properties are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis.

Processing facilities and well equipment will be depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Other equipment is depreciated on a declining balance basis at rates of 20% to 50%, approximating their estimated useful lives.

(iv) Impairment

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable, independent cash inflows. Exploration and evaluation assets are tested with the producing CGU for which the activity can be attributed or separately where a producing CGU does not exist for the exploration and evaluation activity.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs of disposal may be determined using discounted future net after-tax cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net pre-tax cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized as additional depletion expense.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(c) Decommissioning provisions

Decommissioning provisions are recognized for remediation and site restoration obligations associated with the Company's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using a pre-tax risk-free interest rate. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted over the useful life of the underlying asset in the case of property and equipment. The provision is accreted over time through charges to finance costs. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Discount rates are updated at each reporting date. Actual restoration expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any difference between the recorded provision and the actual costs incurred is recorded as an income gain or loss.

(d) Stock-based compensation

The Company has a Stock Option Plan as described in note 12 and stock options granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date 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. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The Company also has a Convertible Preferred Share Plan, not currently being utilized, through which the Board has authorized the issue of convertible preferred shares to employees, consultants and directors as part of the revised compensation plan. Each preferred share will convert into a common share of the Company subject to the attainment of set performance targets. The shares will also convert into common shares upon the occurrence of any transaction that results in all or substantially all of the Company's assets being held by another entity, if the sale price of the transaction values the common shares at or above hurdle prices set for each series of shares. The convertible preferred shares vest over time and compensation cost is recognized based on vesting and an estimate of the likelihood that performance criteria specified in the plan will be achieved.

(e) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(f) Revenue recognition

Revenue from the services provided in the production of oil and natural gas is recognized when title passes from the Company to the customer. Revenue represents the Company's share of oil and gas production that remains after all obligations under its contracts have been recorded, inclusive of any royalty obligations to governments and other mineral interest owners. Transportation costs are reported as a separate expense and are not netted against revenue.

(g) Finance income and expenses

Finance income, consisting of interest income and realized foreign exchange gains, is recognized as it accrues in the statement of income, using the effective interest method.

Finance expense comprises interest expense and bank fees, accretion of the discount on decommissioning provisions and debentures, realized foreign exchange losses and impairment losses recognized on financial assets.

(h) Per share amounts

Earnings (loss) per share are calculated by dividing net and comprehensive income or loss by the weighted average number of common shares outstanding during the period. 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.

(i) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at “fair value through profit or loss” or “amortized cost” as defined by IFRS 7, “Financial Instruments: Disclosures”.

Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through the profit or loss” and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents as “held for trading”.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through the statement of income” and that are not derivatives. The Company has designated accounts receivable as “loans and receivables” and promissory notes, convertible debentures and accounts payable and accrued liabilities as “financial liabilities measured at amortized cost”.

Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company currently has no assets designated as “available-for-sale”.

(ii) ***Derivative financial instruments***

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Company's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as “fair value through profit or loss”.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recognized immediately in the income statement. The Company has not identified any embedded derivatives.

(iii) ***Equity instruments***

Common Shares and Preferred Shares are classified as equity. Incremental costs directly attributable to the issue of Common Shares and stock options are recognized as a deduction from equity, net of any tax effects.

(iv) ***Impairment – financial assets***

The Company assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as “fair value through profit or loss” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(j) Changes in accounting policies and disclosures

Future accounting policies not yet adopted

On May 28, 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) replacing International Accounting Standard 11, “Construction Contracts” (“IAS 11”), IAS 18, “Revenue” (“IAS 18”), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

On July 24, 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” (“IFRS 9”) to replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Madison does not currently apply hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the consolidated financial statements.

4. Critical accounting estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions at the balance sheet date which are based on information available to management at each financial statement date. Actual results could differ from those estimated.

The estimate of the percentage of completion of various projects at the consolidated financial statement date affects exploration and evaluation additions and property and equipment additions and the related accrued liabilities.

Various estimates are required in consideration of impairment of capitalized costs. Consideration of impairment includes estimates relating to future cash flows, regulatory approval, and commodity prices. For petroleum and natural gas properties, Madison assesses impairment using management estimates of total proved and probable oil and natural gas reserves, future commodity prices and capital and operating costs required to develop those reserves. By their nature, these estimates and the related future net cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the financial statements of future periods could be material. Our reserve estimates are subject to change as additional information becomes available or if different assumptions are used.
The estimate related to decommissioning provisions requires estimates of the amount and timing of future abandonment liabilities, inflation, and interest rates.

The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options and convertible preferred shares at the time of issuance.

Deferred taxes require estimates as to the probability of realization of deferred tax assets and the expected timing of reversal of deferred tax assets and liabilities.

5. Exploration and evaluation assets

	Total
Balance at December 31, 2014	$ 16,459,710
Additions	**1,309,086**
Transfers to property and equipment	**-**
Decommissioning provision	**-**
Balance at September 30, 2015	**$ 17,768,796**

Exploration and evaluation assets consist of undeveloped land, seismic and exploratory drilling costs for which reserves have not yet been determined. Additions represent expenditures on geological and geophysical costs.

6. Property and equipment

(*all related to Egypt operations)	Oil and natural gas assets*	Corporate and other	Total
Cost:			
Balance, at December 31, 2014	$ 12,824,120	$ 173,834	$ 12,997,954
Additions	**1,402,527**	**3,700**	**1,406,227**
Transfer from exploration and evaluation assets (see note 5)	**-**	**-**	**-**
Foreign currency revaluation	**(5,479)**	**(4,319)**	**(9,798)**
Decommissioning provision	**31,879**	**-**	**31,879**
Balance at September 30, 2015	**$ 14,253,047**	**$ 173,215**	**$ 14,426,262**
Accumulated depletion and depreciation:			
Balance at December 31, 2014	$ 3,477,511	$ 128,464	$ 3,605,975
Depletion and depreciation expense	**1,205,770**	**14,149**	**1,219,919**
Foreign currency revaluation	**(336)**	**-**	**(336)**
Balance at September 30, 2015	**$ 4,682,945**	**$ 142,613**	**$ 4,825,558**

Net book value:	Oil and natural gas assets*	Corporate and other	Total
At December 31, 2014	$ 9,346,609	$ 45,370	$ 9,391,979
At September 30, 2015	**$ 9,570,102**	**$ 30,602**	**$ 9,600,704**

7. Investments

In November 2010, Madison acquired a 50% equity interest in Brentford Oil Tools LLC (“Brentford”), an oilfield equipment rental business incorporated in Egypt. The Company paid $200,000 for 50% of the issued common shares, with a face value of $1,000,000, less a funding obligation for ongoing capital and operating requirements in the amount of $800,000. The Company is accounting for this investment using the equity method in accordance with IAS 28 - “Investments in Associates”.

The following table summarizes the changes in investments for the nine month period ended September 30, 2015:

	September 30, 2015
Investments, beginning of period	**$ 1,998,554**
Dividends declared	**(917,315)**
Share of operating income	**922,495**
Investments, end of period	**$ 2,003,735**

The following table summarizes the Company’s 50% interest in the assets, liabilities, revenue and operating income of Brentford as at and for the nine month period ended September 30, 2015:

Madison share (50%) of Brentford:	**September 30, 2015**
Total assets	**$ 2,431,817**
Total liabilities	**363,368**
Revenue	**1,377,028**
Net income	**$ 922,495**

8. Debentures

On July 27, 2012, the Company completed a private placement for secured debentures in the amount of CDN $2,560,000. The debentures pay interest at a rate of 10% per annum, payable semi-annually, and are repayable after two years. The debentures are redeemable after one year at face value plus accrued interest, at the Company’s option. During 2014, the Company extended the repayment of the debentures until July 31, 2015. The debentures were repaid in full on May 4th, 2015.

The debentures also included the issue of warrants to acquire common shares, on the basis of 500 warrants for each $1,000 of debentures. 1,280,000 warrants were issued at an exercise price of CDN $0.80 per share, which are exercisable at any time and expire after two years. During 2014, the Company extended the expiry date of the warrants until July 27, 2016.

The Company valued the debentures assuming the discount on the interest rate, as a result of including warrants, was approximately 2%. This resulted in a fair value of the debentures being CDN $2,460,000, with the remaining fair value of CDN $100,000 (US $99,400) being assigned to the warrants.

Accretion of the debentures for the period ended September 30, 2015 of $nil (2014 - $28,670) was recorded as interest expense, resulting in an effective interest rate on the debentures of 10.00% (2014 – 11.96%).

9. Income Taxes

(a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 25.0% (2014 – 25.0%) to income before income taxes as follows:

	Sept 30, 2015	Sept 30, 2014
Expected income tax expense	**$ 518,460**	$3,400,818
Differences resulting from:		
Effect of changes in tax rates and foreign tax rates	**(209,584)**	559,969
Non-deductible stock based compensation	**115,257**	186,573
Allocated costs not previously deductible	**(130,347)**	-
Change in deferred tax assets not recognized	**432,932**	448,107
Total income tax expense	**$ 726,718**	$4,595,467

(b) The components of the deferred income tax assets and liabilities at September 30, 2015 and December 31, 2014 include the following:

	September 30, 2015	December 31, 2014
Deferred tax assets (liabilities):		
Investments	**(6,673)**	$ (6,673)
Property and equipment	**(352,265)**	(396,605)
Decommissioning liability	**56,635**	54,165
Share issue costs	**23,430**	23,430
Debentures	**(59,630)**	(59,630)
Non-capital losses	**2,168,998**	1,687,723
Deferred tax assets not recognized	**(2,126,125)**	(1,693,193)
Deferred income tax asset (liability)	**$ (295,630)**	$ (390,783)

10. Decommissioning provisions

The Company's decommissioning provisions result from its contractual obligations in managing oil and natural gas assets including well sites and gathering systems. The total decommissioning provision is estimated based on the Company's contractual interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total future undiscounted cash flows estimated to settle the provisions is $347,189 at September 30, 2015, which are expected to be incurred between the years 2017 and 2035. The liability has been discounted using a risk-free rate of 2.20% at September 30, 2015.

The following table summarizes the changes in the decommissioning provisions for the nine month period ended September 30, 2015:

	September 30, 2015
Balance, beginning of period	**$ 216,660**
Changes in estimates and discount rates	**(4,482)**
Liabilities settled	**-**
Liabilities incurred	**36,361**
Accretion	**3,173**
Balance, end of period	**$ 251,712**

11. Share capital

(a) Authorized

Unlimited number of voting common shares
Unlimited number of convertible preferred shares, issuable in series

(b) Common shares issued

	September 30, 2015	
	Number	**Stated Value**
Balance, beginning of period	**56,348,080**	**$ 24,512,494**
Issued for cash	**-**	**-**
Share issue costs	**-**	**-**
Issued in lieu of fees	**-**	**-**
Cancelled	**-**	**-**
Balance, end of period	**56,348,080**	**$ 24,512,494**
Weighted average shares outstanding	**56,348,080**	

(c) Common share warrants issued

	September 30, 2015	
	Number	**Stated Value**
Balance, beginning of period	**1,280,000**	**$ 99,400**
Issued for cash	**-**	**-**
Balance, end of period	**1,280,000**	**$ 99,400**

12. Stock-based compensation

The Company has a stock option plan that provides for the issuance of options to its directors, officers and key employees to acquire up to 10% of the issued and outstanding shares. The options vest over three years and expire six years from the date of grant. The Company accounts for its stock-based compensation using the fair-value method whereby compensation costs are recorded in the financial statements for share options granted.

During the nine months ended September 30, 2015, the Company granted 680,000 options to employees, officers and directors, at an exercise price of $0.85 Cdn. A total fair value for these options was calculated, at the date of the grants, of $414,400 Cdn. During the current period, $461,029 USD relating to these options and previously issued options was recognized as stock based compensation expense.

13. Finance income and costs

	Nine months ended Sept 30, 2015	2014
Finance income		
Interest income	**$ 11,342**	$ 5,366
	11,342	5,366
Finance costs		
Interest and bank charges	**253,513**	873,284
Foreign exchange (gain) loss - realized	**(830,840)**	(94,579)
Accretion of debentures	**-**	28,670
Accretion of decommissioning provisions	**3,173**	2,930
	$ (574,154)	$ 810,305

14. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Nine months ended Sept 30, 2015	2014
Source/(use) of cash		
Change in:		
Accounts receivable	**$ 1,757,878**	$ 10,567,275
Prepaid expenses and deposits	**-**	926,178
Accounts payable and accrued liabilities	**(5,232,244)**	220,283
	$ (3,474,366)	$ 11,713,736
Related to operating activities	**$ (3,446,903)**	$ 9,835,442
Related to financing activities	**-**	-
Related to investing activities	**(27,463)**	1,878,294
Changes in non-cash working capital	**$ (3,474,366)**	$ 11,713,736
Income taxes paid	**$ 4,933,230**	$ 4,429,776
Interest paid	**$ 385,905**	$ 928,610

15. Related party transactions

Personnel expenses

The aggregate payroll expense of employees, officers and directors was $1,900,683 for the nine month period ended September 30, 2015 ($1,094,840 for the nine month period ended September 30, 2014). Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and participate in the Company's convertible preferred share plan and stock option program. The executive officers include the President and CEO, VP Finance and CFO and VP Engineering. Key management personnel payroll compensation was $1,292,890 for the nine month period ended September 30, 2015 ($875,872 for the nine month period ended September 30, 2014).

Stock-based compensation

The aggregate stock-based compensation expense of employees, consultants, officers and directors was $461,029 for the nine month period ended September 30, 2015 ($746,290 for the nine month period ended September 30, 2014). Non-executive directors and certain consultants also participate in the Company's stock option program. Key management personnel stock-based compensation was $382,100 for the nine month period ended September 30, 2015 ($626,884 for the nine month period ended September 30, 2014).

16. Financial instruments

(a) Fair values

The fair values of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, and debentures approximate their carrying value due to the short term maturity of these instruments.

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety.

The only asset or liability at September 30, 2015 measured at fair value is cash and cash equivalents of $11,990,528 which falls under level 1 of the hierarchy.

The Company is exposed to financial risks arising from its financial assets and liabilities.

The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are as follows:

(b) Credit risk

Credit risk is primarily related to the Company's receivables from government agencies and the risk of financial loss if a customer, partner, or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from government agencies may have a long collection period but are considered to be very credit-worthy. The Company has experienced delays in the collection of its receivables from government agencies in Egypt, however it now has a factoring arrangement with a major Egyptian bank in place which has resulted in receipt of nearly all overdue amounts. At September 30, 2015, the Company was owed $1.4 million by the Egyptian National Petroleum Corp, and of this amount, $0.1 million was greater than 90 days overdue. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner.

The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from joint venture partners; however, in certain circumstances, it may cash-call a partner in advance of the work.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessed collectability; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. The Company believes that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business. There were no receivables allowed for or written off during the period ended September 30, 2015.

Cash balances consist of amounts on deposit with banks. The Company manages the credit exposure of cash by selecting financial institutions with high credit ratings.

Total credit risk at September 30, 2015 is comprised of $11,990,528 in cash and cash equivalents and $1,548,037 in accounts receivable.

(c) Market risk

Market risk consists of commodity price, foreign exchange and interest rate risk that may affect the value of the Company's financial instruments.

(i) Commodity Price Risk

Commodity price risk is the risk that the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the world and continental/regional economies and other events that dictate the levels of supply and demand. The Company has not attempted to mitigate commodity price risk through the use of financial derivative contracts. The Company had no financial derivative sales contracts as at or for the period ended September 30, 2015.

(ii) Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all the Company's oil and natural gas sales are denominated in US dollars, the underlying market prices globally for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the US dollar. The Company had no forward exchange rate contracts in place as at or for the period ended September 30, 2015.

(iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company currently has no exposure to this risk as it has only a factoring agreement with a fixed rate of interest.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares capital expenditure budgets which are regularly monitored and updated as considered necessary. As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. See note 17 for a discussion on the Company's capital management policy.

17. Capital Management

The Company's policy is to maintain a strong capital basis with the following objectives:

- Maintaining financial flexibility
- Maintaining creditor and investor confidence, and
- Sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The most significant alternatives available for the management of the capital structure include adjusting capital spending to manage projected debt levels or to issue shares when management and the Board of Directors feel the timing is appropriate. Management continually monitors the Company's projected capital spending and its net debt to maintain a sound capital position.

18. Commitments

Office lease

The Company has a lease commitment for its office premises through to October 31, 2017. The amounts due under this commitment, inclusive of estimated operating expenses are (CDN$): 2015 - $94,380, 2016 - $377,727, 2017 - $314,599.

Parental guarantee

On December 10, 2012 the Company signed a Parent Company Guarantee ("PCG") in favour of Dana Petroleum plc for a sum not exceeding US$12,055,900, which is Madison's share of the $31,000,000 minimum work programme. The PCG was signed in order to guarantee compliance by a subsidiary, Madison Cameroon Oil and Gas Ltd., with the minimum work programme detailed in the Production Sharing Contract pertaining to the West Bakassi Block in Cameroon. The minimum work programme, to be completed by June 2016, includes $1 million for geological and geophysical studies, $12 million for acquiring 250km of 2D seismic and $18 million for drilling one well and one contingent well. On September 7, 2015, Dana confirmed that the PCG has been reduced by US$4,666,800 ($12,000,000 gross) for the seismic portion of the work programme.

Development drilling

In October 2013, the Company was granted a development permit on the South H Lease (SHF) in Egypt, with a commitment to drill 2 wells within 4 years of the grant date. The grantor is able to withhold a deposit of $500,000 for each committed well from Madison's service fee revenue. At September 30, 2015, $125,000 is being held as a deposit.

19. Subsequent Events

Business combination

Effective October 1, 2015, Madison completed an arrangement agreement with Sea Dragon Energy Inc, whereby Sea Dragon acquired all of the outstanding common shares of Madison.

Under the terms of the Arrangement Agreement, Sea Dragon acquired all of the issued and outstanding Madison shares on the basis of an exchange ratio of 16.7 Sea Dragon common shares for each Madison share. Upon closing the transaction, existing Madison shareholders hold approximately 71% of the combined entity, renamed "**SDX Energy Inc.**", with the holders of Sea Dragon shares holding approximately 29% of the combined entity.