Financial Statements
2018 Q1 Interim Report

Interim Consolidated Balance Sheet (Unaudited)

(thousands of United States dollars)	Note	As at March 31 2018	As at December 31 2017
Assets			
Cash and cash equivalents	6	**29,277**	25,844
Trade and other receivables	5a	**30,210**	37,656
Inventory		**4,044**	5,157
Current assets		**63,531**	68,657
Investments	9	**2,958**	2,724
Property, plant and equipment	7	**55,590**	54,445
Intangible exploration and evaluation assets	8	**18,418**	15,231
Non-current assets		**76,966**	72,400
Total assets		**140,497**	141,057
Liabilities			
Trade and other payables	10	**17,713**	19,459
Deferred income	11	**495**	495
Decommissioning liability	12	**1,063**	1,063
Current income taxes	18	**1,169**	915
Current liabilities		**20,440**	21,932
Deferred income	11	**613**	737
Decommissioning liability	12	**3,872**	3,479
Deferred income taxes	18	**290**	290
Non-current liabilities		**4,775**	4,506
Total liabilities		**25,215**	26,438
Equity			
Share capital	13	**88,785**	88,785
Contributed surplus		**5,998**	5,666
Accumulated other comprehensive loss		**(874)**	(888)
Retained earnings		**21,373**	21,056
Total equity		**115,282**	114,619
Equity and liabilities		**140,497**	141,057

The notes are an integral part of these Interim Consolidated Financial Statements.

The financial statements on pages 39 to 55 were approved by the Board of Directors on May 17, 2018 and signed on its behalf by:

Paul Welch
Chief Executive Officer

Mark Reid
Chief Financial Officer

Interim Consolidated Statement of Comprehensive Income (Unaudited)

(thousands of United States dollars)	Note	Three months ended March 31 2018	2017
Revenue, net of royalties	15	**10,960**	8,136
Revenue			
Direct operating expense	16	**(1,994)**	(2,048)
Gross profit		**8,966**	6,088
Exploration and evaluation expense	8	**(3,250)**	(73)
Depletion, depreciation and amortisation	7	**(2,533)**	(3,522)
Stock based compensation	14	**(332)**	(43)
Share of profit from joint venture	9	**234**	374
General and administrative expenses			
- Ongoing general and administrative expenses	17	**(1,245)**	(2,181)
- Transaction costs	17	**-**	(2,218)
Operating income/(loss)		**1,840**	(1,575)
Net finance expense		**(21)**	(37)
(Loss)/gain on acquisition	3	**(174)**	29,464
Income before income taxes		**1,645**	27,852
Current income tax expense	18	**(1,328)**	(984)
Deferred income tax expense	18	**-**	-
Total current and deferred income tax expense		**(1,328)**	(984)
Net income		**317**	26,868
Other comprehensive income/(loss)			
Foreign exchange		**14**	79
Total comprehensive income for the period		**331**	26,947
Net income per share			
Basic	19	**$0.002**	$0.172
Diluted	19	**$0.002**	$0.171

The notes are an integral part of these Interim Consolidated Financial Statements.

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	Note	Three months ended March 31 2018	2017
Share capital			
Balance, beginning of period	13	**88,785**	40,275
Issuance of common shares		**-**	39,491
Share issue costs		**-**	(781)
Balance, end of period		**88,785**	78,985
Contributed surplus			
Balance, beginning of period		**5,666**	5,128
Share based payments for the period		**332**	43
Balance, end of period		**5,998**	5,171
Accumulated other comprehensive loss			
Balance, beginning of period		**(888)**	(917)
Foreign currency translation adjustment for the period		**14**	79
Balance, end of period		**(874)**	(838)
Retained earnings/(accumulated loss)			
Balance, beginning of period		**21,056**	(7,222)
Net income for the period		**317**	26,868
Balance, end of period		**21,373**	19,646
Total equity		**115,282**	102,964

The notes are an integral part of these Interim Consolidated Financial Statements.

Interim Consolidated Statement of Cash Flows (Unaudited)

(thousands of United States dollars)	Note	Three months ended March 31 2018	2017
Cash flows generated from/(used in) operating activities			
Income before income taxes		**1,645**	27,852
Adjustments for:			
Depletion, depreciation and amortization	7	**2,533**	3,522
Exploration and evaluation expense	8	**3,250**	53
Finance expense		**21**	37
Stock based compensation	14	**332**	43
Loss/(gain) on acquisition	3	**174**	(29,464)
Tax paid by State	18	**(975)**	(754)
Share of profit from joint venture	9	**(234)**	(374)
Operating cash flow before working capital movements		**6,746**	915
Decrease in trade and other receivables	5a	**7,272**	1,683
(Decrease)/increase in trade and other payables	10	**(2,478)**	465
Increase in inventory		**(589)**	-
Cash generated from operating activities		**10,951**	3,063
Income taxes paid	18	**-**	(8)
Net cash generated from operating activities		**10,951**	3,055
Cash flows (used in)/generated from investing activities:			
Property, plant and equipment expenditures	7	**(5,477)**	(113)
Exploration and evaluation expenditures	8	**(2,365)**	(288)
Acquisition of subsidiaries	3	**-**	(28,056)
Cash balance acquired during the period	3	**-**	3,108
Net cash used in investing activities		**(7,842)**	(25,349)
Cash flows generated from/(used in) financing activities:			
Issuance of common shares	13	**-**	38,710
Finance costs paid		**(3)**	(37)
Net cash (used in)/generated from financing activities		**(3)**	38,673
Increase in cash and cash equivalents		**3,106**	16,379
Effect of foreign exchange on cash and cash equivalents		**327**	(52)
Cash and cash equivalents, beginning of period		**25,844**	4,725
Cash and cash equivalents, end of period		**29,277**	21,052

The notes are an integral part of these Interim Consolidated Financial Statements.

Notes to the Interim Consolidated Financial Statements
For the three months ended March 31, 2018 and 2017

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

1. Reporting entity

SDX Energy Inc. ("SDX" or "the Company"), formerly known as Sea Dragon Energy Inc., is a company domiciled in Canada. The address of the Company's registered office is Centennial Place, East Tower, 1900, 520 – 3rd Avenue SW, Calgary, Alberta T2P 0R3. The unaudited Interim Consolidated Financial Statements of the Company as at and for the three months ended March 31, 2018 and 2017 ("Interim Consolidated Financial Statements") comprise the Company and its wholly owned subsidiaries and include the Company's share of joint arrangements (together the "Group").

The Company's shares trade on the Toronto Venture Stock Exchange ("TSX-V") in Canada and on the London Stock Exchange's Alternative Investment Market ("AIM") in the United Kingdom under the symbol "SDX".

The Company is engaged in the exploration for and development and production of oil and natural gas. The Company's principle properties are located in the Arab Republic of Egypt and the Kingdom of Morocco.

As described in note 3 to the Interim Consolidated Financial Statements, on January 27, 2017, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc.

2. Basis of preparation

(a) Statement of compliance

These Interim Consolidated Financial Statements for the three months ended March 31, 2018 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These Interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These Interim Consolidated Financial Statements of SDX Energy Inc. were approved by the Audit Committee on May 17, 2018.

(b) Accounting policies

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

(c) 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 Consolidated Financial Statements and through until December 31, 2019. The capital expenditure and operating costs used in these forecast cash flows are based on the Company's Board approved 2018 SDX corporate budget which reflects approved operating budgets for each of its Joint Ventures and an estimate of 2018 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 period to December 31, 2019. The Directors have made enquiries into and considered the Egyptian and Moroccan business environment, future expectations regarding commodity price risk and, in particular, oil price risk given the volatility in quoted Brent and WTI crude oil prices.

Having considered these sensitivities and potential outcomes relating to:
(i) country and commodity price risks;
(ii) the Company's ability to change the timing and scale of discretionary capital expenditure;
(iii) the Company's ability to manage operating costs; and
(iv) the Company's ability to manage general and administrative costs.

The Directors consider that in a lower cost environment the Company has sufficient resources at its disposal to continue for the foreseeable future. The foreseeable future is defined as not being less than twelve months from the date of publication of these Interim Consolidated Financial Statements.

Given the above, these Interim Consolidated Financial Statements continue to be prepared under the going concern basis of accounting.

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

3. Business Combination

On January 27, 2017, the Company announced the acquisition, through two of its wholly-owned subsidiaries, of the entire issued share capital of Circle Oil Egypt Limited ("COEL") and Circle Oil Morocco Limited ("COML") for a cash purchase price of US$28.1 million.

The acquisition was funded by means of a conditional placing of new Common Shares in SDX at a Placing Price of 30 pence (C$0.50) per Placing Share, amounting to US$40.0 million before costs.

COEL holds a 40% interest in the NW Gemsa concession, Eastern Desert, Egypt. Prior to the acquisition, SDX held a 10% interest in this concession, bringing the post-acquisition holding to 50%.

COML holds a 75% interest and operatorship in certain licences, onshore Morocco, with L'Office National des Hydrocarbures et des Mines ("ONHYM") holding a 25% interest.

The acquisition is in accordance with the Company's strategy to pursue value adding production and development opportunities in North Africa to complement its organic growth strategy.

The fair value of the identifiable assets and liabilities of COEL and COML as at the date of acquisition were:

US$ million	Fair value as at January 27, 2017
Non-current assets	
Property, plant and equipment	43.2
Current assets	
Cash and cash equivalents	3.1
Trade and other receivables	32.7
Inventory	1.1
Current tax	0.1
Non-current liabilities	
Decommissioning liability	(2.8)
Deferred income	(0.7)
Current liabilities	
Trade and other payables	(17.1)
Decommissioning liability	(1.2)
Deferred income	(0.9)
Total identifiable net assets at fair value	57.5
Total consideration	(28.1)
Excess of fair value over cost (bargain purchase)	29.4

Prior to the acquisition the parent company of COEL and COML, Circle Oil Jersey Limited, was placed into administration. The excess of fair value over cost arises due to the fact that COEL and COML were distressed businesses and purchased out of administration. A bargain purchase gain amounting to US$29.4 million was recognised in the Consolidated Statement of Comprehensive Income for periods subsequent to the acquisition, after recording the following adjustments:

- A provision of US$2.6 million has been recognised against certain aged receivables due from ONHYM relating to its share of historic construction costs, and a further US$0.5 million of additional deferred income was recognised. These have been partially offset by additional billings for well completions in Morocco of US$1.0 million (US$0.8 million net of VAT). Management has further considered the recoverability of the trade receivables balance alongside confirmations received from EGPC and concession operators of amounts to be settled, as well as forecast uses of Egyptian Pounds in operations, and do not consider it necessary to apply discounting. The trade receivables balance and any updates to the conclusion over discounting will be monitored over the coming months.
- Ahead of the drilling campaign that commenced in the second half of 2017, an assessment was made of the acquired inventory. Certain items were identified as being unfit for use and an obsolescence provision of US$0.2 million was recognised. Aged working capital of US$0.9 million associated with legacy suppliers was eliminated.
- A further US$1.9 million has been recorded for additional liabilities acquired, relating to potential tax and legal claims.
- An accrued payable relating to back-dated tariff charges and other costs of US$4.8 million at NW Gemsa has been released following the agreement of a payment plan with the operator. The estimate of natural gas and NGL receivable acquired has been revised down by US$1.5 million following the receipt of additional information from the operator and EGPC (see note 5a) to US$6.7 million.

COEL and COML contributed US$4.1 million revenue and US$1.6 million net profit and US$3.6 million revenue and US$1.6 million net loss respectively to the Interim Consolidated Financial Statements for the three months to March 31, 2018.

4. 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 consolidated balance sheet approximate to their fair value due to the short term nature of those instruments.

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.

5. Financial risk management

(a) Credit risk

Trade and other receivables

Subsequent to the acquisition described in note 3, all of the Company's operations were conducted in Egypt and Morocco. 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 against invoiced sales has been recorded as at March 31, 2018 and December 31, 2017. Receivables have not been discounted.

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

	Carrying amount	
$000's	**March 31 2018**	December 31 2017
Government of Egypt controlled corporations	**19,695**	25,582
Government of Morocco controlled corporations	**3,802**	3,597
Third party gas customers	**3,641**	3,175
Joint venture partners	**886**	1,586
Other [(1)]	**918**	841
Total	**28,942**	34,781

(1) excludes prepayments of US$1.3 million which are included in the Interim Consolidated Balance Sheet as Trade and other receivables but which are not categorised as Financial Assets as summarised above (2017: US$2.9 million)

US$19.7 million of current receivables related to oil, gas and NGL sales and production service fees which are due from EGPC (2017: US$25.6 million), a Government of Egypt controlled corporation. The Company expects to collect outstanding receivables of US$16.8 million for NW Gemsa (2017: US$22.7 million) and US$2.9 million for Block – H Meseda (2017: US$2.9 million), in the normal course of operations. During Q1 2018, as part of the Government of Egypt's commitment to reduce amounts owing to international oil companies, the Company received US$6.0 million in lump-sum payments.

US$3.8 million is owed by ONHYM and relates to ONHYM's share of well completion and connection and production costs outstanding.

US$3.6 million is owing from third party gas customers in Morocco and is expected to be collected within agreed credit terms.

Subsequent to March 31, 2018, the Company collected US$5.0 million of trade receivables from those that were outstanding at March 31, 2018; US$2.3 million for NW Gemsa, US$1.2 million for Block-H Meseda, US$1.3 million from third party gas customers and US$0.2 million from ONHYM in Morocco. Of the US$3.5 million collected for NW Gemsa and Block-H Meseda, US$2.3 million was in cash and US$1.2 million was offset against South Disouq drilling costs.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. At March 31, 2018, US$0.9 million was receivable from joint venture partners in the South Disouq concession (2017: South Disouq - US$1.6 million).

The other receivables of US$0.9 million consist of US$0.5 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US$0.4 million for other items.

US$1.3 million related to prepayments predominantly associated with the Morocco and South Disouq drilling campaigns is recorded in the Interim Consolidated Balance Sheet.

As at March 31, 2018 and December 31, 2017, the Company's trade and other receivables, other than prepayments, are aged as follows:

	Carrying amount	
	March 31	December 31
$000's	**2018**	2017
Current (less than 90 days)	**11,952**	21,261
Past due (more than 90 days)	**16,990**	13,520
Total	**28,942**	34,781

Current trade and other receivables are unsecured and non-interest bearing. 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$3.5 million when compared to December 31, 2017. This increase is primarily due to NW Gemsa natural gas and NGL invoices issued by the operator in Q4 2017 amounting to US$9.2 million, which were current as at December 31, 2017, which have yet to be paid. This re-classification has been partly offset by the collection of US$5.7 million of aged receivables.

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.

(b) 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$"). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities, primarily on exchange fluctuations between the Egyptian Pound ("EGP") and the US$, the Moroccan Dirham ("MAD") and the US$, and Sterling ("GBP") and the US$. The majority of capital expenditures are incurred in US$, EGP and MAD, and oil, natural gas, NGL and service fee revenues are received in US$, EGP and MAD. The Company is able to utilize EGP and MAD to fund its Egyptian and Moroccan office general and administrative expenses and to part-pay cash requirements 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$**	**EGP**	**GBP**	**MAD**	**Other**
As at March 31, 2018			**US$ Equivalent**			
Cash and cash equivalents	29,277	14,004	2,114	2,756	10,369	34
Trade and other receivables [(2)]	28,942	19,281	46	208	9,368	39
Trade and other payables	(17,713)	(12,951)	(718)	(254)	(1,470)	(2,320)
Current income taxes	(1,169)	-	(1,169)	-	-	-
Balance sheet exposure	39,337	20,334	273	2,710	18,267	(2,247)

(1) FS denotes Financial Statements

(2) Excludes prepayments

The average exchange rates during the three months ended March 31, 2018 and 2017 were 1 US$ equals:

Average: January 1, 2018 to March 31, 2018			
	USD/EGP	USD/GBP	USD/MAD
Period average	17.6371	0.7188	9.1789

Average: January 1, 2017 to March 31, 2017			
	USD/EGP	USD/GBP	USD/MAD
Period average	17.7806	0.8074	10.0542

The exchange rates as at March 31, 2018 and 2017 were 1 US$ equals:

Period end: March 31, 2018			
	USD/EGP	USD/GBP	USD/MAD
March 31, 2018	17.6249	0.7134	9.1977

Period end: March 31, 2017			
	USD/EGP	USD/GBP	USD/MAD
March 31, 2017	18.2177	0.8008	10.0195

Notes to the Interim Consolidated Financial Statements
For the three months ended March 31, 2018 and 2017
(tabular amounts are in thousands of United States dollars except where stated)

6. Cash and cash equivalents

	Carrying amount	
$000's	March 31 2018	December 31 2017
Cash and bank balances	27,619	24,248
Restricted cash (1)	1,658	1,596
Total cash and cash equivalents	**29,277**	25,844

(1) Cash collateral of US$1.7 million is held at the bank to cover bank guarantees for minimum work commitments on the Company's Moroccan concessions. These guarantees are subject to forfeiture in certain circumstances if the Company does not fulfil its minimum work obligations.

7. Property, plant and equipment

$000's	Oil and gas properties	Furniture and fixtures	Total
Cost:			
Balance at December 31, 2016	**32,368**	**188**	**32,556**
Additions	15,975	457	16,432
Acquisitions	43,232	-	43,232
Balance at December 31, 2017	**91,575**	**645**	**92,220**
Additions	3,454	224	3,678
Balance at March 31, 2018	**95,029**	**869**	**95,898**
Accumulated depletion, depreciation, amortization and impairment:			
Balance at December 31, 2016	**(19,862)**	**(89)**	**(19,951)**
Depletion, depreciation and amortization for the year	(17,737)	(87)	(17,824)
Balance at December 31, 2017	**(37,599)**	**(176)**	**(37,775)**
Depletion, depreciation and amortization for the period	(2,505)	(28)	(2,533)
Balance at March 31, 2018	**(40,104)**	**(204)**	**(40,308)**
NBV Property, plant and equipment as at December 31, 2017	53,976	469	54,445
NBV Property, plant and equipment as at March 31, 2018	**54,925**	**665**	**55,590**

During the three months ended March 31, 2018, the PP&E additions of US$3.7 million predominantly related to the Morocco drilling campaign (US$1.5 million), the Rabul 4 well in Block-H Meseda and well workovers, and preparatory work for drilling the AASE-25 well in NW Gemsa (US$2.0 million), the acquisition of additional technical software (US$0.1 million), and the fit out of the new Cairo office in Egypt (US$0.1 million). The difference between the US$3.7 million disclosed above and the US$5.5 million Property, plant and equipment expenditure in the Consolidated Statement of Cash Flows is due to the fact that payments to creditors associated with Moroccan drilling that were outstanding as at 31 December, 2017 exceeded the value of work undertaken during Q1 2018.

The Company has also recorded, on the face of the table above, the assets acquired from Circle Oil plc, at fair value of US$43.2 million.

8. Intangible exploration and evaluation assets

$000's	
Balance at December 31, 2016	**10,623**
Additions	4,608
Balance at December 31, 2017	**15,231**
Additions	6,270
Exploration and evaluation expense	(3,083)
Balance at March 31, 2018	**18,418**

During the three months ended March 31, 2018, E&E additions totaling US$6.3 million consisted of US$1.9 million at South Disouq for rig mobilization, site preparation and the Ibn-Yunus 1-X exploration well drilling costs incurred within the period.

Additions in Morocco were for the drilling of the ELQ-1 and KSS-2 wells and pre-drill costs for LNB-1 and LMS-1 (US$3.6 million) as well as US$0.8 million of mobilization costs for the forthcoming 3D seismic campaign. Following sub-commercial results at the ELQ-1 and KSS-2 wells, the full costs of these two wells of US$3.1 million were expensed to the Interim Consolidated Statement of Comprehensive Income. In addition, US$0.2 million in new venture activity costs were expensed during the period.

9. Investments

The Company owns a 50% equity interest in Brentford Oil Tools LLC ("Brentford"), an oilfield services business incorporated in Egypt, over which it exercises joint control. Brentford owns all assets which it uses to provide its services and is legally responsible for settling its liabilities. Although in the current and comparative period Brentford has only provided services to its shareholders, it is not contractually obliged to do so and in the past it has contracted with third parties and continues to seek opportunities to do so. On the balance of facts, the Company has concluded that Brentford is a Joint Venture under IFRS 11 – "Joint Arrangements" and the Company's interest is equity accounted for. The investment is reviewed regularly for indicators of impairment and no impairment was identified for the periods ended March 31, 2018 and December 31, 2017.

The following table summarizes the changes in investments for the periods ended March 31, 2018 and December 31, 2017:

	Carrying amount	
$000's	**March 31 2018**	December 31 2017
Investments, beginning of period	**2,724**	2,503
Dividends received	**-**	(801)
Share of operating income	**234**	1,022
Investments, end of period	**2,958**	2,724

The following table summarizes the Company's 50% interest in the assets, liabilities, revenue and operating income of Brentford as at March 31, 2018 and 31 December 2017:

$000's	**March 31 2018**	December 31 2017
Total assets	**2,463**	2,235
Total liabilities	**214**	14
Revenue	**346**	1,448
Net income	**234**	1,022

During the three month period ended March 31, 2018 and the year ended December 31, 2017 50% of Brentford's revenue was earned from fees charged to the Company.

10. Trade and other payables

	Carrying amount	
$000's	**March 31 2018**	December 31 2017
Trade payables	**4,672**	2,636
Accruals	**6,222**	9,536
Joint venture partners	**6,193**	5,686
Other payables	**626**	1,601
Total trade and other payables	**17,713**	19,459

Trade payables comprises billed services and goods and as at 31 March, 2018 predominantly consisted of creditors associated with the Moroccan drilling campaign (US$3.4 million) and G&A creditors.

The US$2.1 million increase in Trade payables as at March 31, 2018, is due to billed services and goods associated with the Moroccan drilling campaign, an element of which was within accruals as at December 31, 2017.

Accruals include amounts for products and services received which have yet to be invoiced. The US$3.3 million decrease period on period reflects payments, or invoices received, made for work undertaken but not billed as at December 31, 2017 for the Morocco drilling campaign, partly offset by additional unbilled work in Morocco and at South Disouq.

Joint venture partners comprise partner current accounts of US$1.5 million for NW Gemsa (2017:US$1.0 million), US$1.3 million Block-H Meseda (2017: US$1.2 million) and US$3.4 million for the Morocco concessions (2017: US$3.5 million). The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Other payables of US$0.6 million comprise an estimated liability of US$0.5 million related to the relinquishment of the Shukheir Marine concession (2017: US$0.5 million), and employees costs accrued, VAT payable and other sundry creditors of US$0.1 million (US$1.1 million).

The difference between the decrease of US$1.8 million in trade and other payables in the Interim Consolidated Balance Sheets as at March 31, 2018 and December 31, 2017 and the line item in the Interim Consolidated Statement of Cash Flows relating to the implied decrease in Trade and other payables of US$2.5 million relates the timing differences between receipt and payment of invoices to operational creditors.

11. Deferred income

Deferred income relates to an advance receipt for gas sales from a customer in Morocco. This payment was used to fund the tie-in of the customer's manufacturing premises to the Company's operated gas pipeline. The amount will be credited to the Consolidated Statement of Comprehensive Income under the terms of an agreement entered into with the customer under which the selling price of gas is discounted by 5% until the advance payment is fully recouped, expected to be during the year ended December 31, 2019.

12. Decommissioning liability

Upon acquisition of Circle Oil's Moroccan assets, the Company assumed responsibility for the decommissioning of these assets and has drilled further wells since acquisition that will require decommissioning in future periods.

As at March 31, 2018 the total future undiscounted cash flows amounted to US$5.4 million, to be incurred between the years 2018 and 2021 and the liability was discounted using a risk-free rate of 3.0%. US$1.1 million of expenditure is anticipated within the next 12 months.

In addition, following the drilling of the SD-1X well and submission of the South Disouq field development plan, the Company has a present obligation to decommission this asset, under the terms of the concession agreement. The total future undiscounted cash flows amounted to US$0.1 million, to be incurred in 2022, and the liability was discounted using a risk-free rate of 8.0%.

The discounted value of the above cash flows amounts to US$4.9 million as at 31 March, 2018, as shown below:

	Carrying amount	
$000's	**March 31 2018**	December 31 2017
Decommissioning liability, beginning of period	**4,542**	-
Changes in estimate	**371**	625
Liabilities acquired through business combination	**-**	3,968
Payments for decommissioning	**-**	(137)
Accretion	**22**	86
Decommissioning liability, end of period	**4,935**	4,542
Of which:		
Current	**1,063**	1,063
Non-current	**3,872**	3,479

No decommissioning liabilities are recorded in respect of the Company's other Egyptian assets, under the terms of the respective concession agreements.

13. 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, 2018		December 31, 2017	
	Number of Shares (000's)	Stated Value ($000's)	Number of Shares (000's)	Stated Value ($000's)
Balance, beginning of period	**204,493**	**88,785**	79,844	40,275
Issue of common shares (less share issue costs)	-	-	124,649	48,510
Balance, end of period	**204,493**	**88,785**	204,493	88,785
Weighted average shares outstanding	**204,493**		184,422	

14. Stock-based compensation
The stock based compensation expense of US$0.3 million recorded in the Interim Consolidated Statement of Comprehensive income represents the IFRS 2 charge associated with both the stock option plan and Long Term Incentive Plan described below.

Stock option plan
The Company has a stock option plan 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 twelve months ended December 31, 2017, 640,000 stock options were issued to four non-executive Directors of the Company, 100,000 options lapsed, 100,000 options were cancelled due to employees leaving the Company, and 33,332 options were exercised. There have been no option transactions in 2018.

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

	Number of Options (000's)	Weighted average exercise price (CDN$)
Outstanding January 1, 2017	**2,445**	**0.61**
Lapsed during the year	(100)	0.54
Cancelled during the year	(100)	0.45
Exercised during the year	(33)	0.36
Issued during the year	640	0.76
Outstanding December 31, 2017	**2,852**	**0.65**
Exercisable December 31, 2017	**2,395**	**0.64**
Outstanding March 31, 2018	**2,852**	**0.65**
Exercisable March 31, 2018	**2,395**	**0.64**

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

14. Stock-based compensation (continued)

Stock option plan (continued)

The exercise price of the outstanding options under the stock option plan as at March 31, 2018 is as follows:

	Outstanding options		Vested options	
Exercise price range	**Number of options**	**Remaining contractual life**	**Number of options**	**Remaining contractual life**
CAD $0.39 - $0.76	2,851,667	3-5 years	2,395,000	3-5 years

Key assumptions relating the options issued to March 31, 2018 are as follows:

	2017	2016	2015
Fair value at grant date (CDN)	$0.26	$0.29	$0.29
Share price (CDN)	$0.76	$0.36	$0.63
Exercise price (CDN)	$0.76	$0.36	$0.63
Volatility (%)	70	70	70
Forfeiture (%)	0	0	0
Option life	5 years	5 years	5 years
Dividends (%)	0	0	0
Risk-free interest rate (%)	0.8	0.8	0.8

Long Term Incentive Plan ("LTIP")

On July 31, 2017 the Company established a new Long Term Incentive Plan and issued awards to its Executive Directors and certain other key employees. The Company recognizes the need to ensure that Executive Directors and key employees from its operational, commercial, technical and financial divisions, who are critical to executing the Company's strategy over the next phase of its development, are retained and incentivized to generate long term value for shareholders.

The LTIP Awards and CSOP Options granted under the Plan take the form of a base award over a number of common shares. These awards will normally vest on the third anniversary of the date of grant of the awards, subject to meeting certain strategic, operational, financial and shareholder return performance criteria and the continued employment of the participant. The awards for the Executive Directors are subject to a further two year holding period from the date of vesting with clawback provisions contained in the rules of the Plan which can be applied to awards made to all participants.

The number of common shares granted to Executive Directors, over which the LTIP Awards and CSOP Options may vest, can be increased by a multiple of up to one times depending on the level of share price growth over the three year period from date of grant. The potential level of increased share awards is calculated as follows;

- If the share price growth in the three year period is less than 11% pa, there will be no increase in the base award number of shares set out above; and
- If the share price growth in the three year period is between a range of 11% pa and 20% pa, the additional number of shares which vest will increase proportionately within this range up to a cap of a multiple of one times the base award number of shares. This cap will be triggered at share price growth of 20% pa or more.

For the avoidance of doubt, the maximum number of shares which can vest for the CEO and CFO respectively is 3,005,674 and 2,234,707 respectively.

Based upon grants to May 17, 2018, the maximum potential number of common shares that can vest to the Executive Directors and other selected employees under the LTIP was in aggregate 7,214,506. All of these options are outstanding as at March 31, 2018 and May 17, 2018 but none have vested.

The number of ordinary shares that may be issued or reserved for issuance under the awards granted pursuant to the LTIP, together with all common shares which may be issued under options granted pursuant to the Company's stock option plan, may not exceed 10% of the Company's issued and outstanding common shares at the time of grant. No ordinary shares of the Company will be issued pursuant to awards granted under the LTIP until such time as such shareholder approval is received.

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

15. Revenue, net of royalties

(thousands of United States dollars)	Three months ended March 31 2018	2017
NW Gemsa oil sales revenue	**8,519**	6,549
Royalties	**(3,656)**	(2,811)
Net oil revenue	**4,863**	3,738
Block H Meseda production service fee revenues	**2,513**	1,996
Morocco gas sales revenue	**3,597**	2,210
Net other products revenue	**(13)**	192
Total net revenue before tax	**10,960**	8,136

With the exception of Moroccan gas sales, the oil, gas and NGLs revenue and royalties relate to the NW Gemsa concession, which is governed by an Egyptian PSC. The royalties are those attributable to the government take in accordance with the fiscal terms of the PSC. No royalties are yet payable in respect of Moroccan gas.

The Company sells associated gas and Natural Gas Liquids ("NGLs") from its NW Gemsa concession to the Egyptian state. These sales commenced in February 2013, with revenue recognized from February 2013 to September 2013 of that year. Subsequent to September 2013, the Company ceased recognizing revenue due to a dispute with EGPC over entitlement volumes and pricing. During Q4 2016 this dispute was resolved such that outstanding sales for the period October 1, 2013 and December 31, 2016 were recognized. These sales have continued to be recognized for the three months ended March 31, 2018. In December 2017, the operator of the NW Gemsa concession advised that the invoices that it had issued were based on erroneous volumes and prices and that the revised invoices resulted in lower revenues. The adjustment was made during Q4 2017, with the portion relating to the acquired Circle Oil receivables adjusted through the gain on acquisition (US$1.3 million), and the remainder through net revenue (US$0.3 million). A further correction was necessary for Q1 2018, with US$0.2 million being adjusted through the gain on acquisition and US$0.2 million through net revenue.

The production service fees relate to Block-H Meseda, which is governed by an Egyptian PSA.

The Moroccan gas sales revenue is derived from a Petroleum Agreement with the Moroccan state.

16. Direct operating expense

(thousands of United States dollars)	Three months ended March 31 2018	2017
NW Gemsa	**889**	1,139
Block-H Meseda	**809**	696
Morocco - Sebou	**296**	176
Other	**-**	37
Total direct operating costs	**1,994**	2,048

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

17. General and administrative expenses

	Three months ended March 31	
(thousands of United States dollars)	**2018**	2017
Wages and employee costs	**1,883**	1,696
Consultants - inc. PR/IR	**128**	100
Legal fees	**94**	72
Audit, tax and accounting services	**132**	62
Public company fees	**195**	104
Travel	**83**	89
Office expenses	**278**	202
IT expenses	**156**	111
Service recharges	**(1,704)**	(255)
Ongoing general and administrative expenses	**1,245**	2,181
Transaction costs	**-**	2,218
Total net G&A	**1,245**	4,399

18. Income tax

	Three months ended March 31	
(thousands of United States dollars)	**2018**	2017
NW Gemsa	**975**	754
Block-H Meseda	**339**	230
Morocco - Sebou	**-**	-
Other	**14**	-
Total current taxes	**1,328**	984

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 "grossed up" and included in net oil revenues and the income tax expense of the Company in the reported financial statements.

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 Interim Consolidated Statement of Comprehensive Income for the three months ended March 31, 2018 relates to income tax on North West Gemsa's PSC and income tax relating to the Company's PSA in Block-H Meseda, as described above.

The current income tax liability of US$1.2 million in the Consolidated Balance Sheet relates to the Company's PSA in Block H Meseda and equates to corporate income tax for the period Q1 2017 to Q1 2018, less payments made on account.

The Company's Moroccan operations benefit from a 10 year corporation tax holiday from first production and no taxation is due on Moroccan profits as at March 31, 2018.

19. Income/(loss) per share

	Three months ended March 31	
(thousands of United States dollars)	**2018**	2017
Net income before comprehensive income for the period	**317**	26,868
Weighted average amount of shares		
- Basic	**204,493**	155,973
- Diluted	**206,629**	157,540
Per share amount		
- Basic	**$0.002**	$0.172
- Diluted	**$0.002**	$0.171

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.

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

20. Segmental Reporting

Following the acquisition of the Egyptian and Moroccan assets of Circle Oil plc, the Company's operations are managed on a geographic basis, by country.

The Company is engaged in one business of upstream oil and gas exploration and production. The executive directors are the Company's chief operating decision maker within the meaning of IFRS 8.

	Three months ended March 31, 2018				Three months ended March 31, 2017			
	Egypt	Morocco	Unallocated(1)	Total	Egypt	Morocco	Unallocated(1)	Total
Revenue	7,363	3,597	-	10,960	5,926	2,210	-	8,136
Operating costs	(1,698)	(296)	-	(1,994)	(1,872)	(176)	-	(2,048)
Netback (pre tax)	5,665	3,301	-	8,966	4,054	2,034	-	6,088
General and administrative expenses	(124)	-	(1,121)	(1,245)	(316)	(453)	(3,630)	(4,399)
Stock based compensation	-	-	(332)	(332)	-	-	(43)	(43)
EBITDAX	5,541	3,301	(1,453)	7,389	3,738	1,581	(3,673)	1,646
Exploration and evaluation expense	-	(3,083)	(167)	(3,250)	-	-	(73)	(73)
Depletion, depreciation and amortization	(1,120)	(1,363)	(50)	(2,533)	(1,826)	(1,693)	(3)	(3,522)
Share of profit from joint venture	234	-	-	234	374	-	-	374
Operating income/(loss)	4,655	(1,145)	(1,670)	1,840	2,286	(112)	(3,749)	(1,575)

(1) Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment.

The segment assets and liabilities as at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018				December 31, 2017			
	Egypt	Morocco	Unallocated(1)	Total	Egypt	Morocco	Unallocated(1)	Total
Segment assets	69,931	49,728	20,838	140,497	74,046	51,277	15,734	141,057
Segment liabilities	(6,073)	(18,155)	(987)	(25,215)	(4,703)	(19,523)	(2,212)	(26,438)

(1) Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment.

21. Commitments and contingencies

Pursuant to the concession and production service fee agreements in Egypt and Morocco, the Company is required to perform certain minimum exploration and development activities that include the drilling of exploration and development wells. These obligations have not been provided for in the Interim Consolidated Financial Statements.

In Morocco, the commitments are for the drilling of two exploration wells in the Lalla Mimouna permit, being LMS-1 and LNB-1, and one exploration well and 240km^2 of 3D seismic in Gharb Centre. The total estimated cost of these commitments is c.US$13.5 million, including unpaid well costs at the period end.

In Egypt the Commitments are for the drilling of one appraisal well and facilities upgrade for South Ramadan (US$3.0 million) and two exploration wells and no less than 100km^2 of 3D for the second exploration phase commitment for South Disouq. The Company estimates that its share of this committed exploration cost on South Disouq is $6.3 million which will be incurred within the next twelve months.

The anticipated timing of the expenditure associated with the above commitments is as follows:

$000's	**March 31 2018**	December 31 2017
Less than one year	**22,800**	31,000
Between one and five years	**-**	-
Total	**22,800**	31,000

The Company has a lease commitment for its office premises in London under a non-cancellable operating lease.

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

$000's	**March 31 2018**	December 31 2017
Less than one year	**178**	172
Between one and five years	**346**	375
Total	**524**	547

There are no contingencies as at March 31, 2018.

22. Post balance sheet events

On April 12, 2018, it was announced by the Company that a gas discovery had been made at its Ibn Yunus-1X exploration well at South Disouq in Egypt. The Ibn Yunus-1X well was drilled to a total depth of 9,068 feet and encountered 100.8 feet of net conventional natural gas pay in the Abu Madi horizon, which had an average porosity in the pay section of 28.5%. The well came in on prognosis but with a reservoir section that was of better quality and thicker than pre-drill expectations. The well will be completed as a producer in the Abu Madi section and then tested after the drilling rig has moved off location. The testing is anticipated to commence between 30 and 45 days after the rig departs, depending on the availability of testing equipment.

On April 20, 2018, it was announced by the Company that a gas discovery had been made at its LNB-1 exploration well on the Lalla Mimouna permit in Morocco. The LNB-1 well was drilled to a total depth of 1,861 meters. The primary target was in the Lafkerena sequence, where 300 meters of gas bearing horizons were encountered in a significantly over-pressured section. The mudlog obtained through the section showed elevated gas readings of more than 20% with multiple sections above 50%. This section could not be logged using conventional methods due to hole conditions. Additionally in the secondary target, the Upper Dlalha, 2.6 meters of net conventional natural gas pay sands were encountered with average porosity in the pay section of 33%. This pay section is similar to the Guebbas targets, from which SDX successfully produces on the Sebou permit. The well will be completed as a conventional gas producer in the Upper Dlalha with the deeper Lafkerena section being suspended until the appropriate equipment can be mobilized, to test and produce from this over-pressured section.

On April 24, 2018, it was announced by the Company that an oil discovery has been made at its Rabul 4 Well in the West Gharib Concession in Egypt. The well was drilled to a total depth of 5,250 feet and encountered approximately 43 feet of net heavy oil pay across the Yusr and Bakr formations, with an average porosity of 16%. Further evaluation of the discovery is ongoing, after which the Company expects the well to be completed as a producer and connected to the central processing facilities at Meseda.

On May 7, 2018, it was announced by the Company that a conventional natural gas discovery has been made at its LMS-1 exploration well on the Lalla Mimouna permit in Morocco. The LMS-1 well was drilled to a total depth of 1,158 meters. The primary target was in the H-9 sequence which is a Miocene aged shallow marine deposit that had not been previously tested in the area. The well encountered 16.4 meters of net conventional gas pay sands which had an average porosity of 32% in an over-pressured section. Similar to the previously drilled LNB-1, heavier gas shows were encountered indicating the presence of a deeper thermogenic source rock charging the structure. In addition, the cuttings showed evidence of fluorescence indicating the potential presence of liquid hydrocarbons within the section encountered. The well is now being completed as a conventional natural gas producer in the H-9 interval and once the rig has left the location the well will be perforated and tested.