Financial Statements
2018 Annual Report

Independent Auditor's Report

To the Shareholders of SDX Energy Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SDX Energy Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Richard Spilsbury.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Aberdeen, United Kingdom

March 22, 2019

Consolidated Balance Sheet
as at December 31, 2018 and 2017

US$'000s	Note	As at December 31 2018	As at December 31 2017
Assets			
Cash and cash equivalents	7	**17,345**	25,844
Trade and other receivables	6b	**24,324**	37,656
Inventory	8	**5,236**	5,157
Current assets		**46,905**	68,657
Investments	11	**3,394**	2,724
Property, plant and equipment	9	**48,680**	54,445
Exploration and evaluation assets	10	**39,128**	15,231
Non-current assets		**91,202**	72,400
Total assets		**138,107**	141,057
Liabilities			
Trade and other payables	12	**14,418**	19,459
Deferred income	13	**495**	495
Decommissioning liability	14	**1,125**	1,063
Current income taxes	15	**1,458**	915
Current liabilities		**17,496**	21,932
Deferred income	13	**240**	737
Decommissioning liability	14	**4,042**	3,479
Deferred income taxes	15	**290**	290
Non-current liabilities		**4,572**	4,506
Total liabilities		**22,068**	26,438
Equity			
Share capital	16	**88,899**	88,785
Contributed surplus		**6,860**	5,666
Accumulated other comprehensive loss		**(917)**	(917)
Retained earnings		**21,197**	21,085
Total equity		**116,039**	114,619
Equity and liabilities		**138,107**	141,057

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

The financial statements on pages 53 to 82 were approved by the board of directors on March 22, 2019 and signed on its behalf by:

Paul Welch
Chief Executive Officer

Mark Reid
Chief Financial Officer

Consolidated Statement of Comprehensive Income
for the years ended December 31, 2018 and 2017

US$'000s	Note	Twelve months ended December 31 2018	2017
Revenue, net of royalties	18	**53,679**	39,166
Revenue			
Direct operating expense		**(11,934)**	(10,254)
Gross profit		**41,745**	28,912
Exploration and evaluation expense	10	**(5,744)**	(187)
Depletion, depreciation and amortisation	9	**(17,268)**	(17,824)
Impairment expense	9	**(3,520)**	-
Stock-based compensation	17	**(1,194)**	(538)
Share of profit from joint venture	11	**1,195**	1,022
Bad debt expense	6b	**(123)**	-
Release of historic operational tax provision	4	**300**	-
(Inventory write-off)/reversal of inventory provision	8	**(370)**	798
Gain on sale of office asset		**23**	-
General and administrative expenses			
- Ongoing general and administrative expenses	19	**(4,815)**	(6,420)
- Transaction costs	19	**(2,455)**	(2,373)
Operating income		**7,774**	3,390
Net finance expense		**(542)**	(129)
Foreign exchange gain		**75**	29
(Loss)/gain on acquisition	4	**(174)**	29,558
Income before income taxes		**7,133**	32,848
Current income tax expense	15	**(7,021)**	(4,541)
Deferred income tax expense	15	**-**	-
Total current and deferred income tax expense		**(7,021)**	(4,541)
Total comprehensive income for the period		**112**	28,307
Net income per share			
Basic	20	**$0.001**	$0.153
Diluted	20	**$0.001**	$0.151

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

Financial Statements

Consolidated Statement of Changes in Equity
for the years ended December 31, 2018 and 2017

US$'000s	Note	Twelve months ended December 31 2018	2017
Share capital			
Balance, beginning of period	16	**88,785**	40,275
Issuance of common shares		**114**	49,589
Share issue costs		**-**	(1,079)
Balance, end of period		**88,899**	88,785
Contributed surplus			
Balance, beginning of period		**5,666**	5,128
Stock-based compensation for the period		**1,194**	538
Balance, end of period		**6,860**	5,666
Accumulated other comprehensive loss			
Balance, beginning of period		**(917)**	(917)
Balance, end of period		**(917)**	(917)
Retained earnings/(accumulated loss)			
Balance, beginning of period		**21,085**	(7,222)
Total comprehensive income for the period		**112**	28,307
Balance, end of period		**21,197**	21,085
Total equity		**116,039**	114,619

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

Consolidated Statement of Cash Flows
for the years ended December 31, 2018 and 2017

US$'000s	Note	Twelve months ended December 31 2018	2017
Cash flows generated from/(used in) operating activities			
Income before income taxes		**7,133**	32,848
Adjustments for:			
Depletion, depreciation and amortization	9	**17,268**	17,824
Exploration and evaluation expense	10	**5,103**	187
Impairment expense	9	**3,520**	-
Finance expense		**542**	129
Stock-based compensation	17	**1,194**	538
Loss/(gain) on acquisition	4	**174**	(29,558)
Foreign exchange loss/(gain)		**368**	(141)
Gain on sale of office asset		**(23)**	-
Bad debt expense	6b	**123**	-
Release of historic operational tax provision	4	**(300)**	-
Inventory write-off/(reversal of inventory provision)	8	**370**	(798)
Amortisation of deferred income	13	**(497)**	(380)
Tax paid by state	15	**(5,036)**	(3,551)
Share of profit from joint venture	11	**(1,195)**	(1,022)
Operating cash flow before working capital movements		**28,744**	16,076
Decrease in trade and other receivables	6b	**11,195**	4,871
Increase in trade and other payables	12	**330**	2,988
Increase in inventory	8	**(2,801)**	(1,951)
Payments for decommissioning	14	**(140)**	(4)
Cash generated from operating activities		**37,328**	21,980
Income taxes paid	15	**(1,091)**	(364)
Net cash generated from operating activities		**36,237**	21,616
Cash flows (used in)/generated from investing activities:			
Property, plant and equipment expenditures	9	**(21,945)**	(21,132)
Exploration and evaluation expenditures	10	**(22,865)**	(3,785)
Dividends received	11	**525**	760
Acquisition of subsidiaries	4	**-**	(28,056)
Cash balance acquired during the period	4	**-**	3,108
Net cash used in investing activities		**(44,285)**	(49,105)
Cash flows generated from/(used in) financing activities:			
Issuance of common shares	16	**114**	48,510
Finance costs paid		**(197)**	(43)
Net cash (used in)/generated from financing activities		**(83)**	48,467
(Decrease)/increase in cash and cash equivalents		**(8,131)**	20,978
Effect of foreign exchange on cash and cash equivalents		**(368)**	141
Cash and cash equivalents, beginning of period		**25,844**	4,725
Cash and cash equivalents, end of period		**17,345**	25,844

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

Financial Statements

Notes to the Consolidated Financial Statements
for the years ended December 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") is a company domiciled in Canada. The address of the Company's registered office is 1900, 520 - 3rd Avenue SW, Centennial Place, East Tower, Calgary, Alberta T2P 0R3. The Consolidated Financial Statements of the Company as at and for the years ended December 31, 2018 and 2017 comprise the Company and its wholly owned subsidiaries and include the Company's share of joint arrangements as explained in note 11 below (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 principal properties are in the Arab Republic of Egypt and the Kingdom of Morocco.

As described in note 4 to the 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

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and with IFRS Interpretations Committee ("IFRS IC") interpretations. These accounting standards and interpretations are collectively referred to as "IFRS" in this report.

The accounting policies that follow set out those policies that apply in preparing the Consolidated Financial Statements for the year ended December 31, 2018. The policies applied are based on IFRS issued and outstanding as of March 22, 2019.

b) Accounting policies

The Consolidated Financial Statements have been prepared on the historical cost basis.

c) Functional and presentation currency

The functional currency for each entity in the Group, and for joint arrangements and associates, is the currency of the primary economic environment in which that entity operates. Transactions denominated in other currencies are converted to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at year-end exchange rates.

The Group's financial statements are presented in US dollars, as that presentation currency most reliably reflects the business performance of the Group as a whole. On consolidation, income statement items for each entity are translated from the functional currency into US dollars at average rates of exchange, where the average is a reasonable approximation of rates prevailing on the transaction date. Balance sheet items are translated into US dollars at period-end exchange rates.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates and affect the results reported in these Consolidated Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Purchase price allocations, depletion, depreciation and amortization, and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves. Reserve estimates are based on engineering data, estimated future prices, expected future rates of production, and the timing of future capital expenditures, all of which are subject to many uncertainties, interpretations, and judgements. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing, and production levels, and may be affected by changes in commodity prices.

In accounting for property, plant, and equipment, during the drilling of oil and gas wells, at period end it is necessary to estimate the value of work done ("VOWD") for any unbilled goods and services provided by contractors.

The invoicing of produced crude oil, natural gas and natural gas liquids is, for non-operated concessions, performed by the Company's joint venture partners. In certain concessions, the operator relies on production and/or price information from other third parties, which may not be consistently prepared and received on a timely basis. In such instances, the Company may be required to estimate production volumes and/or prices based on the most robust available data.

Provisions recognized for decommissioning costs and related accretion expense, derivative fair value calculations, fair value of share-based payments expense, deferred tax provisions, and fair values assigned to any identifiable assets and liabilities in business combinations are also based on estimates. By their nature, the estimates are subject to measurement uncertainty and the impact on the Consolidated Financial Statements of future periods could be material.

2. Basis of preparation (continued)

e) Brexit

Management has considered the potential impact of the UK vote to leave the European Union and has concluded that, since the Company's business is predominantly conducted in Egypt and Morocco, there are no material uncertainties arising that would have a significant effect on the Company.

f) Going concern

The directors have reviewed the Company's forecast cash flows for the next 21 months from the date of publication of this annual report through to December 31, 2020. The capital expenditure and operating costs used in these forecast cash flows are based on the Company's Board-approved 2019 SDX corporate budget, which reflects approved operating budgets for each of its operating assets and an estimate of 2020 SDX corporate general and administrative expenses. The Company's forecast cash flows also reflect its best estimate of operational and corporate expenditure, including corporate general and administrative costs for the year to December 31, 2020. The directors have made enquiries into and considered the Egyptian and Moroccan business environments, 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 12 months from the date of publication of the 2018 annual report.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these Consolidated Financial Statements and have been applied consistently by the Company and its subsidiaries.

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists where the Company has; power over the entities, that is existing rights that give it the current ability to direct the relevant activities of the entities (those that significantly affect the Companies' returns); exposure, or rights, to variable returns from its involvement with the entities; and the ability to use its power to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

ii) Joint arrangements

A joint arrangement is an arrangement by which two or more parties have joint control. Joint control is the contractually agreed sharing of control such that decisions about the relevant activities of the arrangement (those that significantly affect the Companies' returns) require the unanimous consent of the parties sharing control. The Company has one joint arrangement, its 50% equity interest in Brentford Oil Tools LLC ("Brentford"). As the parties sharing joint control in this entity have rights to its net assets, the arrangement constitutes a joint venture and is accounted for using the equity accounting method. Under the equity method of accounting, the investment in Brentford was initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. The Company's Consolidated Statement of Comprehensive Income includes its share of Brentford's profit or loss. The Company's other comprehensive income includes its share of Brentford's other comprehensive income. Dividends received or receivable from Brentford are recognized as a reduction in the carrying amount of the investment.

iii) Investments in associates

An associate is an entity over which the Company has significant influence, and is equity accounted for.

iv) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Consolidated Financial Statements.

b) Foreign currency

Transactions in foreign currencies are translated to United States dollars at exchange rates available on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate.

Foreign exchange gains and losses resulting from the settlement of such transactions and the translation at exchange rates ruling at the period end date of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Previously, such gains and losses were recognized in other comprehensive income. The updated accounting policy has no net effect on prior period total comprehensive income or equity.

3. Significant accounting policies (continued)

c) Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are off set and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Cash and cash equivalents
Cash and cash equivalents are comprised of cash in hand, deposits with banks, term deposits, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are designated as loans and receivables.

Financial assets at fair value through the Consolidated Statement of Comprehensive Income
An instrument is classified at fair value through the Consolidated Statement of Comprehensive Income if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through the Consolidated Statement of Comprehensive Income if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in the Consolidated Statement of Comprehensive Income when incurred. Financial instruments are measured at fair value and changes therein are recognized in the Consolidated Statement of Comprehensive Income.

Financial liabilities
Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less (when material) a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Financial assets
Trade and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

ii) Equity instruments

Equity instruments are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects, if any.

d) Inventory

Inventories consist of tangible drilling materials and other consumables. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less applicable selling expenses.

e) Property, plant and equipment and intangible exploration and evaluation expenses

i) Recognition and measurement

Development and production costs
Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or the construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Expenditures on major maintenance, inspections, or overhauls are capitalized when the item enhances the life or performance of an asset above its original standard. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant, and equipment are recognized in the Consolidated Statement of Comprehensive Income as incurred. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance expenditures are expensed as incurred.

3. Significant accounting policies (continued)

e) Property, plant and equipment and intangible exploration and evaluation expenses (continued)

i) Recognition and measurement (continued)

Exploration and evaluation expenditures

Pre-licence costs are recognized in the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

Exploration and evaluation expenditures, including the costs of acquiring licences and directly attributable general and administrative costs, geological and geophysical costs, acquisition of mineral and surface rights, technical studies, other direct costs of exploration (drilling, trenching, sampling, and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as intangible exploration and evaluation ("E&E") assets.

On a quarterly basis, a review of any areas classified and accounted for as E&E is performed to determine whether enough information exists to assess the technical feasibility and commercial viability of the area. Where appropriate, the review may indicate that an area should be further subdivided because a significant portion has already been explored, while a significant undeveloped portion with different traits (i.e. different zone, technical approach, play type, etc.) remains that requires additional E&E activities to assess it for technical feasibility and commercial viability.

The assessment of technical feasibility and commercial viability is performed on an area level basis unless further subdivision is recommended. Depending on the extent and complexity of the prospective play, many wells may need to be drilled and potentially significant E&E costs accumulated prior to obtaining enough information to assess technical feasibility and commercial viability.

E&E costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant E&E asset will be reclassified from a development and production asset ("D&P") into the cash generating unit ("CGU") to which it relates, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. Typically, the technical feasibility and commercial viability of extracting a mineral resource is considered to be demonstrable when proven or probable reserves are determined to exist. However, if the Company determines the area is not technically feasible and commercially viable, accumulated E&E costs are expensed in the period during which the determination is made.

ii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account the estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets (see below), a straight-line basis is used over the assets' estimated useful lives, as follows:

Fixtures and fittings	1 - 5 years
Office equipment	1 - 5 years
Vehicles	1 - 5 years
Software licenses	1 - 3 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date.

f) Impairment

i) Financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit losses ("ECL") model. The ECL model is applicable to financial assets classified at amortized costs and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability weighted amount that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The Group applied the simplified approach to determine impairment of its trade and other receivables. The simplified approach requires expected lifetime losses to be recognized from initial recognition of the receivables. This involves determining the expected loss rates using a provision matrix that is based on the Group's historical default rates observed over the expected life of the receivables and adjusted forward looking estimates. This is then applied to the gross carrying amount of the receivables to arrive at the loss allowance for the period.

3. Significant accounting policies (continued)

f) Impairment (continued)

ii) Non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified as D&P assets or whenever facts and circumstances indicate potential impairment. Exploration and evaluation assets are tested separately for impairment. An impairment loss is recognized for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less the cost of disposal and its value in use.

Values of oil and gas properties and other property, plant, and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the CGU). The recoverable amount of a CGU is the greater of its fair value less the cost of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. An impairment loss is charged to the income statement. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased, and if such an indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

g) Leases

Leased assets are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

IFRS 16 will be applied from January 1, 2019.

h) Share-based payments

The grant date fair value of options granted to employees is recognized as stock-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. Each tranche granted is considered a separate grant with its own vesting period and grant date fair value. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

i) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior operating decision-makers. The senior operating decision-makers have been identified as the Executive directors who, as a group, make strategic decisions regarding the Company.

j) Provisions

A provision is recognized, if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

k) Decommissioning obligations

The Company's activities can give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs, whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision is established.

3. Significant accounting policies (continued)

l) Revenue

Revenue is measured at the fair value of the consideration received or receivable for goods in the normal course of business.

i) Sale of goods

Revenue from the sale of hydrocarbons is recognized when the Company has passed control of the hydrocarbons to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sales price can be measured reliably, and the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is when insurance risk has passed to the buyer and the goods have been collected at the agreed location.

The performance obligation is satisfied when the hydrocarbons are delivered to the agreed location with the appropriate required documentation and the customer accepts control of the shipment by signature. Prices are based on published indices, with agreed contractual adjustments for quality, marketing fees, and other variables.

ii) Provision of production services

Revenue from the provision of production services is recognized when the Company has passed control of the produced hydrocarbons to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the production service fee can be measured reliably, and the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is when insurance risk has passed to the buyer and the goods have been collected at the agreed location.

The performance obligation is satisfied when the produced hydrocarbons are delivered to the agreed location with the appropriate required documentation and the customer accepts control of the shipment by signature. Production services fees are based on published indices, with agreed contractual adjustments for quality, marketing fees, and other variables.

iii) Royalties

In the Arab Republic of Egypt, under the terms of the Company's Production Sharing Contracts ("PSCs"), the state is entitled to a percentage in kind of hydrocarbons produced. The Company accounts for this production share as a royalty, netted against gross revenues.

In the Kingdom of Morocco, under the terms of the Company's Petroleum Agreement with the Moroccan state sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession. The Company nets these royalties against gross revenues.

iv) Transition from IAS 18 'Revenue'

The only changes to the new accounting policy under IFRS 15 compared with IAS 18 are:

- the performance obligation under IFRS 15 above; and
- control of the items sold under IFRS 15 compared to risk and rewards of ownership being transferred under IAS 18.

Other than that, it is identical to the policy under IAS 18 applied to the comparative data.

m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Pursuant to the terms of the Company's Egyptian concession agreements, the corporate tax liability of the joint venture partners is paid by the government-controlled corporations ("Corporations") out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes, the corporate taxes paid by the Corporations are treated as a benefit earned by the Company; the amount is included in net oil revenues and in income tax expense, therefore having a net neutral impact on reported net income. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The Company also has a production service agreement in Egypt relating to Block-H Meseda. The Company's subsidiary, SDX Energy Egypt (Meseda) Ltd, an Egyptian registered entity, is the SDX contracting party in this production service agreement. This entity pays Corporate tax based on its taxable income, according to this production service agreement, for the year using tax rates enacted or substantively enacted at the reporting date.

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

3. Significant accounting policies (continued)

m) Income tax (continued)

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is also 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 tax 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.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be used.

n) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, such as options granted to employees.

0) Business combinations

Business combinations are accounted for using the acquisition method. Assets and liabilities assumed in a business combination are recognized at their fair value at the date of the acquisition. Any excess of the consideration paid over the fair value of the net assets acquired is recognized as an asset. Any excess of the fair value of the net assets acquired over the consideration paid is recognized in the Consolidated Statement of Comprehensive Income.

p) New standards and interpretations

The Company has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments effective January 1, 2018. Adoption of these standards has not materially affected the way SDX accounts for its revenues or financial instruments. However, the Company will be including the new disclosures required by IFRS 15 and IFRS 9.

IFRS 9 (revised) "Financial Instruments: Classification and Measurement"

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measurement. The new standard covers three distinct areas as follows:

Classification and measurement of financial assets and liabilities

Under the new standard, financial assets are classified as either at amortised cost or fair value through other comprehensive income ("FVOCI"); or fair value through profit and loss ("FVTPL"). 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 its financial assets. All of the Company's financial assets as at January 1, 2018 (trade and other receivables (excluding prepayments) and cash and cash equivalents) satisfied the conditions for classification at amortised cost under IFRS 9.

As for financial liabilities, they are classified as at amortised cost, with some exceptions. Financial liabilities are not reclassified at any point of time. The Company's financial liabilities which includes accounts payables and accrued liabilities and decommissioning liabilities are classified at amortised cost.

As the impact of IFRS 9 in relation to the classification and measurement of financial assets and liabilities was immaterial on the transition date, no retrospective adjustments have been posted on adoption of this standard.

Impairment of financial assets

IFRS 9 incorporates a new expected credit loss model for calculation impairment on financial assets, which will result in more timely recognition of expected credit losses. A review of the Company's historical credit losses has confirmed that annual credit losses are wholly immaterial to the Consolidated Financial Statements therefore no retrospective adjustments have been posted on adoption of IFRS 9.

Hedge accounting

IFRS 9 includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. The Company does not apply hedge accounting.

3. Significant accounting policies (continued)

p) New standards and interpretations (continued)

IFRS 15 "Revenue from Contracts with Customers"

Effective January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers, which replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services as stipulated in a performance obligation. Determining whether the timing of the transfer of control is at a point in time or over time requires judgement and can significantly affect when revenue is recognized. In addition, the entity must also determine the transaction price and apply it correctly to the goods or services contained in the performance obligation.

The Company's revenue is derived exclusively from contracts with customers, except for immaterial amounts related to interest and other income. Royalties are considered to be part of the price of the sale transaction and are therefore presented as a reduction to revenue. Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a good or service to a customer. A good or service is transferred when the customer obtains control of the good or service. The transfer of control of oil, natural gas, and NGLs usually coincides with title passing to the customer and the customer taking physical possession. SDX mainly satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

Revenues associated with the sales of the Company's crude oil, natural gas, and NGLs in Egypt are recognized by reference to actual volumes sold and quoted market prices in active markets (Dated Brent), adjusted according to specific terms and conditions as applicable according to the sales contracts. Revenue is measured at the fair value of the consideration received or receivable. For reporting purposes, the Company records the government's share of production as royalties and taxes as all royalties and taxes are paid out of the government's share of production.

Revenues from the sale of natural gas in Morocco are recognized by reference to actual volumes delivered at contracted delivery points and contracted prices. Certain contracted prices are fixed, and others are determined by reference to quoted market prices in active markets (Dated Brent). Revenues are measured at the fair value of the consideration received. SDX pays royalties to the Moroccan government in accordance with the established royalty regime.

The Company reviewed its sales contracts with customers and determined that IFRS 15 did not have a material impact on its revenue recognition and, accordingly, no material impact on the Consolidated Financial Statements. SDX adopted this standard using the modified retrospective approach, whereby the cumulative effect of initial adoption of the standard is recognized as an adjustment to retained earnings. There was no effect on the Company's retained earnings or prior period amounts as a result of adopting this standard.

Revenue segregated by product type and geographical market is found in notes 18 and 21 respectively.

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

IFRS 16 "Leases"

This is a new accounting standard which will result in almost all leases being recognised on the balance sheet, since the distinction between operating and finance leases is removed. Under the new standard, an asset (that is, the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

As at December 31, 2018, the Company holds a small number of operating leases that are expensed over the lease term. The adoption of IFRS 16 would not have had a material impact on the net assets, operating income, and finance expense of the Company in the current period. However, in the future should the Group contract equipment on longer term contracts to develop its assets there may be a material impact.

The Group intends to adopt IFRS 16 on the following basis (a) prospectively, (b) right of use assets will be measured at an amount equal to the lease liability and (c) leases entered into prior to January 1, 2019 will not be reflected as leases under IFRS 16. The Group has made the following application policy choice: short term leases (less than 12 months) and leases of low value assets will not be reflected in the balance sheet but will be expensed as incurred.

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

4. 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 licenses, 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 & 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 because COEL and COML were distressed businesses and purchased out of administration. A bargain purchase gain amounting to US$29.4 million was recognized 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 recognized 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 recognized. These amounts 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 forecasted 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 began 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 recognized. 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. During Q2 2018, a settlement was reached in relation to a historic operational tax issue, resulting in a provision release of US$0.3 million to the Consolidated Statement of Comprehensive Income.
- 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 17) to US$6.7 million.

COEL and COML contributed US$23.2 million in revenue and US$5.1 million in net loss, and US$14.6 million in revenue and US$0.7 million in net loss respectively for the 12 months ended December 31, 2018.

5. 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:

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 Black-Scholes (non-market-based performance conditions) and Monte Carlo (market-based performance conditions) option pricing models. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility based on the weighted average historic volatility (adjusted for changes expected as the result of publicly available information), the weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, anticipated achievement of performance conditions, and the risk-free interest rate.

6. Financial risk management

a) Overview

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

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

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

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

b) Credit risk

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

	Carrying amount	
US$'000s	**December 31 2018**	December 31 2017
Cash and cash equivalents	**17,345**	25,844
Trade and other receivables(1)	**23,689**	34,781
Total	**41,034**	60,625

(1) Excludes prepayments of US$0.6 million which are included in the Consolidated Balance Sheet as trade and other receivables but which are not categorised as financial assets as summarised above (2017: US$2.9 million).

6. Financial risk management (continued)

(b) Credit risk (continued)

Trade and other receivables

Following the acquisition described in note 4, all of the Company's operations are 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 applies IFRS 9 simplifies model for measuring the expected credit losses which uses a lifetime expected loss allowance and are measured on the days past due criterion. Having reviewed past payments combined with the credit profile of its existing trade debtors in order to assess the potential for impairment, the Company has concluded that this is insignificant as there has been no history of default or disputes arising on invoiced amounts since inception and as such the credit loss percentage is assumed to be almost zero. No provision for doubtful accounts against these sales has been recorded as at December 31, 2018 and December 31, 2017.

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

	Carrying amount	
US$'000s	**December 31 2018**	December 31 2017
Government of Egypt-controlled corporations	**14,846**	25,582
Government of Morocco-controlled corporations	**3,053**	3,597
Third-party gas customers	**2,715**	3,175
Joint venture partners	**1,761**	1,586
Other[1]	**1,314**	841
Total	**23,689**	34,781

(1) Excludes prepayments of US$0.6 million which are included in the 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$14.8 million of current receivables relates to oil, gas, and NGL sales and production service fees that are due from EGPC (2017: US$25.6 million), a Government of Egypt-controlled corporation. The Company expects to collect outstanding receivables of US$10.0 million for NW Gemsa (2017: US$22.7 million) and US$4.8 million for Block-H Meseda (2017: US$2.9 million), in the normal course of operations. As part of the Government of Egypt's commitment to reduce amounts owing to international oil companies, the Company received US$16.1 million in lump-sum payments during the 12 months ended December 31, 2018.

ONHYM, a Government of Morocco-controlled corporation, owes US$3.1 million, which relates to its outstanding share of well completion and connection and production costs. These receivables are not expected to be fully recovered during the next 12 months and have been discounted at 5%, with an associated finance expense of US$0.3 million recognized in the Consolidated Statement of Comprehensive Income. During 2018, the Company received US$0.5 million from ONHYM.

US$2.7 million is owing from third-party gas customers in Morocco and is expected to be collected within agreed credit terms.

Subsequent to December 31, 2018, the Company collected US$14.4 million of trade receivables from those outstanding at December 31, 2018; US$11.6 million from EGPC, and US$2.8 million from third-party gas customers in Morocco. Of the US$11.6 million collected from EGPC, US$1.5 million was in cash and US$10.1 million was offset against South Disouq development costs, South Ramadan drilling costs and amounts owing to joint venture partners.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. At December 31, 2018, US$1.8 million was receivable from the joint venture partner in the South Disouq concession (2017: South Disouq - US$1.6 million), representing both billed and unbilled amounts.

The other receivables of US$1.3 million consist of US$0.8 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US$0.5 million for other items.

US$0.6 million related to prepayments predominantly associated with technical and business development software subscriptions is recorded in the Consolidated Balance Sheet.

6. Financial risk management (continued)

(b) Credit risk (continued)

Trade and other receivables (continued)

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

	Carrying amount	
US$'000s	**December 31 2018**	December 31 2017
Current		
Current (less than 90 days)	**14,805**	21,261
Past due (more than 90 days)	**8,884**	13,520
Total	**23,689**	34,781

Current trade and other receivables are unsecured and non-interest-bearing. The balances that are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have decreased by US$2.7 million compared to December 31, 2017. This decrease is primarily due to the collection of 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, and became aged during 2018.

Cash and cash equivalents

The Company limits its exposure to credit risk by investing only 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.

c) Liquidity risk

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

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

As at December 31, 2018, other than the non-current elements of the deferred income and decommissioning liabilities, the Company's financial liabilities are due within one year.

d) Market risk

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

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

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

6. Financial risk management (continued)

e) Foreign currency risk (continued)

Currency risk is the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The reporting and functional currency of the Company is United States dollars ("US$"). Most of the Company's operations are in foreign jurisdictions and, as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities, primarily on exchange fluctuations between the Egyptian pound ("EGP") and the US$, 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 can use 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, thereby 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	MAD	GBP	Other
As at December 31, 2018			US$ Equivalent			
Cash and cash equivalents	17,345	10,645	2,712	1,864	1,983	141
Trade and other receivables[2]	23,689	15,979	24	6,750	898	38
Trade and other payables	(14,418)	(6,370)	(1,349)	(4,363)	(2,316)	(20)
Balance sheet exposure	26,616	20,254	1,387	4,251	565	159

(1) FS denotes Financial Statements

(2) Excludes prepayments

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

Average: October 1, 2018 to December 31, 2018	USD/EGP	USD/GBP	USD/MAD
Period average	17.9206	0.7769	9.5089

Average: October 1, 2017 to December 31, 2017	USD/EGP	USD/GBP	USD/MAD
Period average	17.7107	0.7537	9.4442

The average exchange rates during the years ended December 31, 2018 and 2017 were 1 US$ equals:

Average: January 1, 2018 to December 31, 2018	USD/EGP	USD/GBP	USD/MAD
Period average	17.8191	0.7499	9.3893

Average: January 1, 2017 to December 31, 2017	USD/EGP	USD/GBP	USD/MAD
Period average	17.8534	0.7770	9.7047

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

Period end: December 31, 2018	USD/EGP	USD/GBP	USD/MAD
Period end	17.8919	0.7812	9.5610

Period end: December 31, 2017	USD/EGP	USD/GBP	USD/MAD
Period end	17.7875	0.7398	9.3519

f) Other price risk

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

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

As at December 31, 2018 the Company did not have any outstanding derivatives in place.

6. Financial risk management (continued)

g) Capital management

The Company defines and computes its capital as follows:

	Carrying amount	
US$'000s	**December 31 2018**	December 31 2017
Equity	**116,039**	114,619
Working capital[1]	**(29,409)**	(46,725)
Total capital	**86,630**	67,894

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

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

7. Cash and cash equivalents

	Carrying value	
US$'000s	**December 31 2018**	December 31 2017
Cash and bank balances	**15,809**	24,248
Restricted cash[1]	**1,536**	1,596
Total cash and cash equivalents	**17,345**	25,844

(1) Cash collateral of US$1.5 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.

8. Inventory

Following the completion of the Company's drilling campaign in Morocco in 2018, the Company undertook a review of on-hand drilling inventory. It was concluded that a number of items should be written off based on several factors, including condition, operational failure, future utility, and the limited resale market in Morocco. A charge of US$0.4 million has been recognized in the Consolidated Statement of Comprehensive Income, resulting in a closing inventory balance as at December 31, 2018 of US$5.2 million, of which US$3.3 million is held in South Disouq and US$1.9 million in Morocco.

9. Property, plant and equipment

US$'000s	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	14,288	735	15,023
Balance at December 31, 2018	**105,863**	**1,380**	**107,243**
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 year	(16,890)	(378)	(17,268)
Impairment expense	(3,520)	-	(3,520)
Balance at December 31, 2018	**(58,009)**	**(554)**	**(58,563)**
NBV Property, plant and equipment as at December 31, 2017	53,976	469	54,445
NBV Property, plant and equipment as at December 31, 2018	**47,854**	**826**	**48,680**

During the 12 months ended December 31, 2018, the PP&E additions of US$15.0 million were predominantly related to the Morocco drilling campaign and new customer connections (US$4.5 million), the drilling of the AASE-25, AASE-27 and Al-Ola 4 wells and well workovers in the NW Gemsa concession (US$7.9 million), the Rabul-4, MH-16, and MH-15 wells in Block-H Meseda and well workovers (US$1.9 million), the acquisition of additional technical software (US$0.5 million), and the fit-out of the new Cairo office in Egypt (US$0.2 million).

The difference between the US$15.0 million disclosed above and the US$22.0 million property, plant and equipment expenditure in the Consolidated Statement of Cash Flows is because payments to billed and accrued creditors associated with Moroccan drilling which were outstanding as at December 31, 2017 were paid in the 12 months ended December 31, 2018.

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

Impairment assessment

At the reporting date, management performed an impairment indicator assessment and concluded that due to a reduction in the proved and probable reserves for the NW Gemsa concession, caused predominantly by reduced oil price assumptions from Q4 2018 onwards, the asset should be tested for impairment.

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

Based on this calculation for NW Gemsa an impairment of US$3.5 million has been recorded.

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

2019	2020	2021	2022	2023	2024
67.0	70.0	71.0	74.0	70.0	78.0

A 10% reduction in the Brent oil sales price would increase the impairment by US$3.4 million. A 10% increase in the Brent oil sales price would reduce the impairment by US$3.3 million.

A 10% reduction in forecast production would increase the impairment by US$3.5 million. A 10% increase in forecast production would reduce the impairment by US$3.4 million.

10. Exploration and evaluation assets

US$'000s	
Balance at December 31, 2016	**10,623**
Additions	4,608
Balance at December 31, 2017	**15,231**
Additions	29,000
Exploration and evaluation expense	(5,103)
Balance at December 31, 2018	**39,128**

During the twelve months ended December 31, 2018, E&E additions amounted to US$29.0 million.

Of this, US$8.5 million was invested at South Disouq for the drilling of the Ibn Yunus-1X, Kelvin-1X, SD-4X, and SD-3X wells. Following the interpretation of well logs, Kelvin-1X was deemed non-commercial and the associated costs (US$1.6 million) were expensed to the Consolidated Statement of Comprehensive Income. A further US$2.1 million was capitalized, representing the costs of the 3D seismic acquisition that began in Q4 2018.

Additions in Morocco relate to the drilling of the ELQ-1, KSS-2, LNB-1, and LMS-1 wells (US$9.4 million) and US$6.4 million for the current 3D seismic campaign. Following sub-commercial results at the ELQ-1 and KSS-2 wells, the full costs of these two wells (US$3.5 million) were expensed.

US$2.6 million of costs relating to the South Ramadan SRM-3 well were incurred during the year.

11. 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 the assets it uses to provide its services and is legally responsible for settling its liabilities. In the current and comparative year, Brentford has provided services only to its shareholders, but it is not contractually obliged to do so. In the past, it has contracted with third parties and continues to seek future opportunities. 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 years ended December 31, 2018 and December 31, 2017.

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

	Carrying value	
US$'000s	**December 31 2018**	December 31 2017
Investments, beginning of period	**2,724**	2,503
Dividends received	**(525)**	(801)
Share of operating income	**1,195**	1,022
Investments, end of period	**3,394**	2,724

11. Investments (continued)

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

SDX share (50%) of Brentford (US$'000s)	**December 31 2018**	December 31 2017
Total assets	**2,454**	2,235
Total liabilities	**9**	14
Revenue	**1,787**	1,448
Net income	**1,195**	1,022

During the year ended December 31, 2018 50% (December 31, 2017: 50%) of Brentford's revenue was earned from fees charged to the Company, and 50% (2017: 50%) to the Company's partner in the Block-H concession.

12. Trade and other payables

	Carrying amount	
US$'000s	**December 31 2018**	December 31 2017
Current		
Trade payables	**3,870**	2,636
Accruals	**3,747**	9,536
Joint venture partners	**5,409**	5,686
Other payables	**1,392**	1,601
Total trade and other payables	**14,418**	19,459

Trade payables comprises billed services and goods and, as at December 31, 2018, consisted predominantly of creditors associated with the Moroccan 3D seismic campaigns and the South Disouq development and 3D seismic campaign (US$2.0 million) and G&A creditors.

The US$1.3 million increase in trade payables as at December 31, 2018, is due to Moroccan and South Disouq 3D seismic costs, South Disouq development costs, and billed transaction costs.

Accruals include amounts for products and services received which have yet to be invoiced. The US$5.8 million decrease period- on-period reflects the fact that unbilled Morocco drilling campaign costs as at December 31, 2017 were significantly higher than corresponding capital accruals, primarily for South Disouq, as at December 31, 2018.

Joint venture partners comprise partner current accounts of US$0.6 million for NW Gemsa (2017:US$1.0 million), US$1.3 million for Block-H Meseda (2017: US$1.2 million), US$3.3 million for the Morocco concessions (2017: US$3.5 million) and US$0.2 million for South Ramadan (2017: US$nil). The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Other payables of US$1.4 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 employee costs accrued, VAT payable, and other sundry creditors of US$0.9 million (2017: US$1.1 million).

The difference between the decrease of US$5.1 million in trade and other payables in the Consolidated Balance Sheets as at December 31, 2018 and December 31, 2017 and the line item in the Consolidated Statement of Cash Flows relating to the implied increase in trade and other payables of US$0.3 million as the balance sheet movement includes payments to capital creditors which are included in PP&E and E&E expenditure in the Consolidated Statement of Cash Flows.

13. 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 with the customer by which the selling price of gas is discounted by 5% until the advance payment is fully recouped (expected during the year ended December 31, 2020).

14. Decommissioning liability

Upon the 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 the future.

As at December 31, 2018, the total future undiscounted cash flows relating to Moroccan assets amounted to US$5.1 million, to be incurred between the years 2019 and 2023, and the liability was discounted using a risk-free rate of 3.0%. Decommissioning expenditure of US$1.1 million is anticipated within the next 12 months.

Following the drilling of the exploration and appraisal wells at South Disouq, the Company has a present obligation to decommission these assets under the terms of the concession agreement. The total future undiscounted cash flows amounted to US$0.6 million, to be incurred in 2025, and the liability was discounted using a risk-free rate of 8.0%.

The discounted value of the cash flows above amounts to US$5.2 million as at December 31, 2018, as shown below:

	Carrying amount	
US$'000s	**December 31 2018**	December 31 2017
Decommissioning liability, beginning of period	**4,542**	-
Changes in estimate	**575**	625
Liabilities acquired through business combination	**-**	3,968
Payments for decommissioning	**(23)**	(137)
Accretion	**73**	86
Decommissioning liability, end of period	**5,167**	4,542
Of which:		
Current	**1,125**	1,063
Non-current	**4,042**	3,479

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

15. Income tax - current and deferred

According to the terms of the Company's Egyptian Production Sharing Contracts ("PSCs"), the corporate tax liability of the joint venture partners is paid by the government-controlled corporations ("Corporations") that 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.

The Company also has a Production Services Agreement ("PSA") related to Block-H Meseda, with the legal title held by SDX Energy Egypt (Meseda) Limited ("SDX Meseda"), 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 SDX Meseda.

The current income tax expense in the Consolidated Statement of Comprehensive Income for the year ended December 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.

The current income tax liability of US$1.5 million in the Consolidated Balance Sheet relates to the Company's PSA in Block-H Meseda.

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

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 27% (2017: 27%) to income before income taxes as follows:

Consolidated Statement of Comprehensive Income

	Twelve months ended December 31	
US$'000s except per unit amounts	**2018**	2017
Income before income taxes	**7,133**	32,848
Canadian statutory income tax rate	**27%**	27%
Expected income taxes	**1,926**	8,869
Adjustments:		
Non-deductible items	**528**	518
Non-taxable gain on acquisition	**47**	(7,981)
Unrecognized income tax benefit	**2,116**	510
Foreign tax differential	**(1,257)**	1,291
Expenses incurred with no recognised tax benefit	**3,661**	1,334
Total current and deferred income tax	**7,021**	4,541

The components of the deferred income tax assets and liabilities at December 31, 2018 and 2017 include the following:

Consolidated Balance Sheet

	Twelve months ended December 31	
US$'000s except per unit amounts	**2018**	2017
Deferred tax assets/(liabilities)		
Investments	**(14)**	(10)
Property, plant and equipment	**(448)**	(324)
Other	**172**	44
Deferred income tax liability	**(290)**	(290)

The Company has US$68.4 million of non-capital losses available at December 31, 2017 (2017: US$61.5 million) to shelter future taxable income, the majority of which were incurred in Canada and expire between 2026 and 2035. The Company has not recognized any deferred tax assets as at December 31, 2018 and 2017 primarily relating to its Canadian business as it has determined that its deferred tax assets are not probable to be realized from current operations.

16. Share capital

The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value. The table below shows the number and stated value of the common shares issued as at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Number of Shares (000s)	Stated Value (US$'000s)	Number of Shares (000s)	Stated Value (US$'000s)
Balance, beginning of period	204,493	88,785	79,844	40,275
Issue of common shares (less share issue costs)	230	114	124,649	48,510
Balance, end of period	**204,723**	**88,899**	204,493	88,785
Weighted average shares outstanding	204,565		184,422	

17. Stock-based compensation

The stock-based compensation expense of US$1.3 million recorded in the Consolidated Statement of Comprehensive income represents the IFRS 2 charge associated with both the stock option plan and the 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 of options in an award is considered a separate award with its own vesting period and grant date fair value. Compensation costs are expensed over the vesting period, with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds and the amount previously recorded as contributed surplus are recorded as share capital.

In the year to December 31, 2018, 400,000 and 106,667 options previously awarded lapsed and were cancelled respectively. During 2018, 213,333 options were exercised by a former director of the Company, in accordance with the 90 day post leaving exercise period stipulated by the stock option plan, and 16,668 options were exercised by an employee. In the 12 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.

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

	Number of Options (000s)	Weighted average exercise price (CAD$)
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**
Lapsed during the period	(400)	0.63
Cancelled during the period	(107)	0.76
Exercised during the period	(230)	0.66
Outstanding December 31, 2018	**2,115**	**0.65**
Exercisable December 31, 2018	**1,795**	**0.64**

The exercise price of the outstanding options under the stock option plan as at December 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	2,115,000	3-5 years	1,795,000	3-5 years

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

17. Stock-based compensation (continued)

Stock option plan (continued)

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

	2017	2016	2015
Fair value at grant date (CAD)	**$0.26**	$0.28	$0.61
Share price (CAD)	**$0.76**	$0.36	$0.63
Exercise price (CAD)	**$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. There are clawback provisions contained in the rules of the Plan that 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 the 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 11% pa and 20% pa, the additional number of shares that 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 that can vest for the CEO and CFO is 3,005,674 and 2,234,707 respectively.

Based on grants to March 22, 2019, the maximum potential number of common shares that can vest to the executive directors and other selected employees under the LTIP was in aggregate 7,100,884. All these options are outstanding as at December 31, 2018 and March 22, 2019 but none have vested.

The number of ordinary shares that may be issued or reserved for issuance under the awards granted in accordance with the LTIP, together with all common shares that 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 granting.

18. Revenue, net of royalties

	Twelve months ended December 31	
US$'000s	**2018**	2017
NW Gemsa oil sales revenue	**42,260**	31,641
Royalties	**(18,137)**	(13,580)
Net oil revenue	**24,123**	18,061
Block-H Meseda production service fee revenues	**14,185**	8,045
Morocco gas sales revenue	**14,614**	12,425
Royalties	**(334)**	-
Net Morocco gas sales revenue	**14,280**	12,425
Net other products revenue	**1,091**	635
Total net revenue before tax	**53,679**	39,166

The oil sales revenue and royalties and net other products revenue relate to the NW Gemsa concession, which is governed by an Egyptian PSC. The royalties are those attributable to the government, taken in accordance with the fiscal terms of the PSC.

The Company sells associated gas and natural gas liquids ("NGLs") from its NW Gemsa concession to the Egyptian state. In December 2017, the operator of the NW Gemsa concession advised that the invoices 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, resulting in a net negative US$0.1 million revenue being recognized. 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. Sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession. During Q3 2018, natural gas production from the Ksiri exploitation concession exceeded such a threshold, resulting in the recognition of royalties amounting to 5% of revenue from this concession from that point forward. Royalty payments are made directly to the Government of Morocco biannually, with the next payment due in Q1 2019.

19. General and administrative expenses

	Twelve months ended December 31	
US$'000s	**2018**	2017
Wages and employee costs	**6,433**	6,514
Consultants - inc. PR/IR	**544**	699
Legal fees	**272**	332
Audit, tax and accounting services	**968**	641
Public company fees	**602**	365
Travel	**348**	382
Office expenses	**1,051**	1,091
IT expenses	**426**	303
Service recharges	**(5,829)**	(3,907)
Ongoing general and administrative expenses	**4,815**	6,420
Transaction costs	**2,455**	2,373
Total net G&A	**7,270**	8,793

2018 transaction costs relate to a number of business development initiatives, including the proposed acquisition of a package of assets in Egypt from BP and the re-domicile of the Group from Canada to the UK. Transaction costs for 2017 were all associated with the Circle Oil acquisition.

20. Income per share

	Twelve months ended December 31	
US$'000s	**2018**	2017
Net income before comprehensive income for the period	**112**	28,307
Weighted average amount of shares		
Basic	**204,565**	184,422
Diluted	**205,222**	187,389
Per share amount		
Basic	**$0.001**	$0.153
Diluted	**$0.001**	$0.151

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 year. 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 by assuming that 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)

21. 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.

	Twelve months ended December 31, 2018				Twelve months ended December 31, 2017			
	Egypt	Morocco	Unallocated[1]	Total	Egypt	Morocco	Unallocated[1]	Total
Revenue	39,399	14,280	-	53,679	26,741	12,425	-	39,166
Direct operating expense	(10,599)	(1,335)	-	(11,934)	(9,166)	(1,088)	-	(10,254)
Netback (pre tax)	28,800	12,945	-	41,745	17,575	11,337	-	28,912
General and administrative expenses	(389)	(1,375)	(5,506)	(7,270)	(1,053)	(957)	(6,783)	(8,793)
Stock-based compensation	-	-	(1,194)	(1,194)	-	-	(538)	(538)
Share of profit from joint venture	1,195	-	-	1,195	1,022	-	-	1,022
Bad debt expense	-	(123)	-	(123)	-	-	-	-
Release of historic operational tax provision	-	300	-	300	-	-	-	-
Inventory write-off	-	(370)	-	(370)	798	-	-	798
Gain on sale of office asset	23	-	-	23	-	-	-	-
EBITDAX	29,629	11,377	(6,700)	34,306	18,342	10,380	(7,321)	21,401
Exploration and evaluation expense	(1,727)	(3,478)	(539)	(5,744)	(2)	-	(185)	(187)
Depletion, depreciation and amortization	(9,489)	(7,269)	(510)	(17,268)	(7,797)	(9,898)	(129)	(17,824)
Impairment expense	(3,520)	-	-	(3,520)	-	-	-	-
Operating income/(loss)	14,893	630	(7,749)	7,774	10,543	482	(7,635)	3,390

(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 December 31, 2018 and December 31, 2017 are as follows:

	December 31, 2018				December 31, 2017			
	Egypt	Morocco	Unallocated[1]	Total	Egypt	Morocco	Unallocated[1]	Total
Segment assets	74,442	48,399	15,266	138,107	74,046	51,277	15,734	141,057
Segment liabilities	(7,229)	(11,227)	(3,612)	(22,068)	(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.

22. Commitments and contingencies

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

In Morocco, the commitment is for one exploration well in Gharb Centre. The estimated cost of this commitment is approximately US$2.0 million.

In Egypt, the commitments are for the drilling of one appraisal well and a facilities upgrade for South Ramadan (remaining commitment of US$0.7 million) and no less than 100km^2 of 3D for the second exploration phase commitment for South Disouq. The Company estimates that its remaining share of this committed exploration cost on South Disouq is $1.1 million, which will be incurred within the next 12 months.

The anticipated timing of the expenditure associated with the above commitments is shown in the table below.

US$'000s	**December 31 2018**	December 31 2017
Less than one year	**3,800**	31,000
Between one and five years	**-**	-
Total	**3,800**	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:

US$'000s	**December 31 2018**	December 31 2017
Less than one year	**163**	172
Between one and five years	**192**	375
Total	**355**	547

There are no contingencies as at December 31, 2018.

23. Related party transactions

All subsidiaries and joint arrangements (Brentford Oil Tools) are listed below. A list of the investments in subsidiary undertakings (all of whose operations comprise one class of business, being oil and gas exploration, development and production), including the name, proportion of ownership interest, country of operation and country of registration, is given below.

Name	Percentage	Country of operation	Country of registration
Sea Dragon Energy (UK) Ltd	100%	U.K.	U.K.
SDX Energy Investments (UK) Ltd	100%	U.K.	U.K.
SDX Energy Morocco (UK) Ltd	100%	U.K.	U.K.
Sea Dragon Cooperatieve U.A.	100%	Netherlands	Netherlands
Sea Dragon Energy Holding B.V.	100%	Netherlands	Netherlands
SDX Energy Egypt (Nile Delta) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy (GOS) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy (Nile) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy (NW Gemsa) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy Holding Ltd.	100%	British Virgin Islands	British Virgin Islands
NPC (Shukheir Marine) Ltd	100%	Egypt	British Virgin Islands
NPC (South Ramadan) Ltd	100%	Egypt	British Virgin Islands
Madison International Oil & Gas Ltd	100%	Barbados	Barbados
Madison Egypt Oil & Gas Ltd	100%	Egypt	Barbados
Madison Cameroon Oil & Gas Ltd	100%	Cameroon	Barbados
SDX Energy Egypt (Meseda) Ltd	100%	Egypt	Egypt
SDX Energy Morocco (Jersey) Ltd	100%	Morocco	Jersey
Limerick Services SARL	100%	Morocco	Morocco
SDX Energy Egypt (Jersey) Ltd	100%	Egypt	Jersey
Brentford Oil Tools	50%	Egypt	Egypt

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

24. Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2018 and 2017 was as follows:

	Twelve months ended December 31	
	2018	2017
Salaries, incentives and short term benefits	**892**	2,489
Directors' fees	**214**	173
Stock based compensation	**996**	417
Total compensation	**2,102**	3,079

Key management personnel have been identified as the non-executive directors and executive officers of the Company. The executive officers include the president and CEO and CFO.

In the year ended December 31, 2017, termination benefits of $383k were paid to Ahmed Moaaz, the former Egypt country manager. No such benefits were paid during 2018.

25. Post-balance sheet events

On January 14, 2019, the Company announced that the South Disouq development lease application had been approved by the relevant authorities. Construction of the pipeline and central processing facility has begun.

On January 28, 2019, the Company announced its intention to de-list from the TSX-V in conjunction with a move of its corporate residence to the UK from Canada.

On February 7, 2019, the Company announced that it has been awarded the Moulay Bouchta Ouest exploration licence (SDX 75% working interest and operator), covering an area of 458km², for a period of eight years. The Company has a commitment to reprocess 150km² of 2D seismic data, acquire 100km² of new 3D seismic and drill one exploration well within the first three-and-a-half-year period. The Company also announced that it has been re-awarded the Lalla Mimouna Sud licence (SDX 75% working interest and operator), covering an area of 857km², for a period of eight years. The Company has a commitment to acquire 50km² of 3D seismic and drill one exploration well within the first three-year period. Both licences are expected to be granted in Q2 2019.