



Management's Discussion & Analysis 2018 Q1 Interim Report

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Basis of presentation

The following Management's Discussion and Analysis (the "MD&A") dated May 17, 2018 is a review of results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), for the three months ended March 31, 2018. This MD&A should be read in conjunction with the accompanying unaudited Interim Consolidated Financial Statements ("Interim Consolidated Financial Statements") for the three months ended March 31, 2018 and the audited Consolidated Financial Statements for the year ended December 31, 2017.

For the purpose of calculating unit information, the Company's production and reserves are reported in barrels of oil equivalent ("boe"). Boe may be misleading, particularly if used in isolation. A boe conversion ratio for natural gas of 6 Mcf (6 Thousand cubic feet): 1 boe has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

As discussed in this MD&A, and in note 3 to the Interim Consolidated Financial Statements, on January 27, 2017, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc. In order to provide the reader with a better understanding on the enlarged business, this MD&A contains certain explanations where the performance of the Company has been analysed as if the acquisition had taken place on January 1, 2017 by using pro forma figures. These are clearly denoted as being pro forma.

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

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

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

Forward-looking statements

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

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

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

Use of estimates

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

Business combination

On January 27, 2017 the Company acquired the Egyptian and Moroccan assets of Circle Oil plc.

In preparing the Interim Consolidated Financial Statements the Company must conform with IFRS 3 – Business Combinations. This means that in the Interim Consolidated Financial Statements for the three months ended March 31, 2018, the 2018 figures in the Interim Consolidated Statement of Comprehensive Income relate to the enlarged entity, whereas the 2017 comparatives contain one month of revenue and costs for the legacy SDX business only and two months for the enlarged entity.

Non-IFRS measures

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

Netback

Netback is a non-IFRS measure that represents sales net of all operating expenses and government royalties. Management believes that netback is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Management considers netback an important measure as it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures used by other companies. See netback reconciliation to operating income/(loss) in note 20 to the Interim Consolidated Financial Statements.

EBITDAX

EBITDAX is a non-IFRS measure that represents earnings before interest, tax, depreciation, amortization, exploration expense and impairment which is operating income/(loss) adjusted for the add back of depreciation and amortization, exploration expense and impairment of property, plant and equipment (if applicable). EBITDAX is presented in order for the users of the financial statements to understand the cash profitability of the Company, which excludes the impact of costs attributable to exploration activity, which tend to be one-off in nature, and the non-cash costs relating to depreciation, amortization and impairments. EBITDAX may not be comparable to similar measures used by other companies. See EBITDAX reconciliation to operating income/(loss) in note 20 to the Interim Consolidated Financial Statements.

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SDX's business strategy and work program

SDX's Business

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

Strategy

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

SDX intends to organically increase production and cash flow generation through an active work program consisting of workover, exploration and development wells in its existing portfolio in Egypt and Morocco, combined with high impact exploration drilling in both countries. In pursuing this strategy, SDX also intends to leverage its balance sheet, its early mover advantage and its regional network to grow through the acquisition of undervalued and/or underperforming producing assets principally in onshore North Africa, while maintaining a strict financial discipline to ensure an efficient use of funds. On 27 January, 2017 the Company completed the acquisition of the Egyptian and Moroccan assets of Circle Oil plc for US\$28.1 million after working capital adjustments and raised US\$40.0 million (before expenses) to fund this acquisition and to provide additional capital for investment into the enlarged group portfolio.

Further detail on this transaction can be found in note 3 to the Interim Consolidated Financial Statements.

On June 1, 2017, the Company announced that it had been awarded the Gharb Centre exploration concession in Morocco with a 75% working interest.

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

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

2018 Work program

The Company's capital expenditure program for 2018 is expected to be approximately US\$50.0 million, including the estimated costs of developing the SD-1X discovery, which are still under review and subject to completion of tenders.

In North West Gemsa, the Company will be investing c.US\$3.3 million and US\$1.6 million respectively for its share of a two well drilling program and a seven well workover program. This investment is targeting a 2018 production rate of 4,400 boepd which is broadly in line with 2017 production levels.

In Meseda, up to c.US\$3.0 million will be contributed for the Company's share of the cost of drilling two wells to develop the Rabul discoveries and two wells to maintain production in the wider Meseda area. In addition the Company is also planning to replace up to five Electric Submersible Pumps ("ESPs"). Overall this activity is hoped to increase production to c.3,800 bopd in 2018 which is approximately 700 bopd higher than 2017 levels.

In South Disouq the Company plans to invest up to US\$6.0 million for its share of a four well program to be carried out during 2018. The well program will cover two exploration wells, Ibn Yunus and Kelvin, targeting up to 150 bcf in two separate structures and two development wells, SD-4X and SD-3X, on the existing SD-1X discovery. Upon success of SD-4X and SD-3X, the Company expects to complete a 10km pipeline, together with the establishment of the SD-1X processing facility and is targeting first production by the end of 2018. Depending on the results of the final tendering processes, SDX's share of the associated capex for the pipeline and processing facility will be c.US\$7.6 million. The Company also plans to undertake a 3D seismic program during 2018 covering up to 170km² of its acreage. SDX's share of this is c.US\$4.2 million.

In South Ramadan in 2018, SDX expects to invest approximately US\$3m for its share of one development well, some platform remediation work and a potential work over on an adjacent well if the proposed development well is successful.

In Morocco, during 2018, the Company will complete the remaining two exploration wells, LNB-1 and LMS-1, of its nine well drilling program. Including the costs of the outstanding 2017 drilling payables and associated customer connections projects, the Company expects to spend approximately US\$15.3 million to complete the drilling program. In addition the Company plans to acquire 240km² of 3D seismic on its Gharb Centre permit during 2018 at a cost of c.US\$6.0 million.

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Operational and financial highlights

In accordance with Canadian industry practice, production volumes and revenues are reported on a Company interest basis, before deduction of royalties.

\$000's unless stated	Prior quarter ⁽¹⁾	Three months ended March 31	
		2018	2017
NW Gemsa oil sales revenue	9,087	8,519	6,549
Royalties	(3,900)	(3,656)	(2,811)
Net oil revenue	5,187	4,863	3,738
Block H Meseda production service fee revenues	2,276	2,513	1,996
Morocco gas sales revenue	3,646	3,597	2,210
Net other products revenue	(105)	(13)	192
Total net revenue	11,004	10,960	8,136
Operating costs	(2,526)	(1,994)	(2,048)
Netback: NW Gemsa oil ⁽²⁾	3,648	3,974	2,564
Netback: Block-H Meseda	1,619	1,704	1,299
Netback: Morocco gas	3,316	3,301	2,033
Netback: Other products ⁽²⁾	(105)	(13)	192
Netback (pre-tax)	8,478	8,966	6,088
EBITDAX	7,663	7,389	1,646
NW Gemsa oil sales (bbl/d)	1,710	1,507	1,493
Block-H Meseda production service fee (bbl/d)	561	558	646
Morocco gas sales (boe/d)	680	664	441
Other products sales (boe/d)	310	307	287
Total sales volumes (boe/d)	3,261	3,036	2,867
NW Gemsa oil sales volumes (bbls)	157,302	135,630	134,395
Block-H Meseda production service fee volumes (bbls)	51,599	50,257	58,126
Morocco gas sales volumes (boe)	62,543	59,779	39,646
Other products sales volumes (boe)	28,550	27,646	25,832
Total sales volumes (boe)	299,994	273,312	257,999
Brent oil price (US\$/bbl)	\$61.52	\$66.86	\$53.64
West Gharib oil price (\$US/bbl)	\$53.59	\$58.75	\$41.93
Realized NW Gemsa oil price (US\$/bbl)	\$57.77	\$62.81	\$48.73
Realized Block-H Meseda service fee (US\$/bbl)	\$44.11	\$50.00	\$34.34
Realized oil sales price and service fees (US\$/bbl)	\$54.39	\$59.34	\$44.38
Realized Morocco gas price (US\$/mcf)	\$9.72	\$10.03	\$9.29
Total royalties (US\$/boe)	\$9.89	\$13.92	\$11.37
Operating costs (US\$/boe)	\$8.42	\$7.30	\$7.94
Netback (US\$/boe)	\$28.26	\$32.80	\$23.60
Capital expenditures	15,302	9,948	811

(1) Three months ended December 31, 2017

(2) When calculating netback for NW Gemsa oil and Other products (NW Gemsa natural gas and NGLs), all NW Gemsa operating costs are allocated to oil, as natural gas and NGLs are associated products with assumed nil incremental operating costs.

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Operational and financial highlights (continued)

Oil sales and production service fee revenues

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Oil sales revenue	9,087	8,519	6,549
Production service fee revenues	2,276	2,513	1,996
Total oil sales and production service fees revenue	11,363	11,032	8,545

Oil sales revenue (relates to NW Gemsa only)

Oil sales volumes

Total oil sales volumes for the three months ended March 31, 2018 averaged 1,507 bbl/d compared to 1,493 bbl/d for the comparative period of the prior year.

Total sales volumes increased by 1,235 barrels, 1%, to 135,630 barrels in the three months ended March 31, 2018 compared to 134,395 barrels in the comparative period of 2017. On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2017, sales volumes decreased by 51,342 barrels, from 186,972 barrels, 27%, due to natural reservoir decline. The NW Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline.

Oil sales pricing

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

During the three months ended March 31, 2018 the Brent price ranged from a high of US\$71.08 per barrel on January 25, 2018 to a low of US\$61.94 per barrel on February 13, 2018. At this time, the Company does not hedge any of its production.

For the three months ended March 31, 2018, oil sales made by the Company achieved an average realized price per barrel of oil of US\$62.81 compared to the average Brent Oil price ("Brent") for the period of US\$66.86; a discount of US\$4.05, 6% per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a further deduction is reflected in the realized price as a result of marketing fees. For the three months ended March 31, 2017, the Company achieved an average realized price of US\$48.73.

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Oil sales revenue (\$'000s)	9,087	8,519	6,549
Per bbl (\$/bbl)	57.77	62.81	48.73

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Oil sales revenue variance from prior year

For the three months ended March 31, 2018 (compared to the three months ended March 31, 2017) oil sales revenue increased due to an increase in sales price of US\$1.9 million, 29%, and an increase in sales volume of US\$0.1 million, 1%, due to the acquired additional 40% of the concession, mostly offset by natural reservoir decline.

\$000's	
Three months ended March 31, 2017	6,549
Price variance	1,911
Production variance	59
Three months ended March 31, 2018	8,519

On a pro forma basis, assuming that the Circle Oil acquisition had occurred in 1 January, 2017, the variance is as follows:

\$000's	
Three months ended March 31, 2017	9,178
Price variance	1,911
Production variance	(2,570)
Three months ended March 31, 2018	8,519

On this basis, improved pricing resulted in a 21% increase in revenue, offset by a 28% reduction in sales volumes, driven by natural reservoir decline.

Oil sales revenue variance from prior quarter

For the three months ended March 31, 2018 (compared to the three months ended December 31, 2017) oil sales revenue decreased by US\$0.6 million, 7%, due to an increase in sales pricing of US\$0.7 million, 8%, offset by reduced sales volume (US\$1.3 million, 14%) due to natural reservoir decline partly mitigated by well work overs.

\$000's	
Three months ended December 31, 2017	9,087
Price variance	684
Production variance	(1,252)
Three months ended March 31, 2018	8,519

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Operational and financial highlights (continued)

Production service fees (relates to Meseda only)

Production service fee volumes

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

Total production service fee volumes decreased by 7,869 barrels, 14%, to 50,257 barrels compared to the three months ended March 31, 2017 due to natural field decline, partly offset by the Rabul discoveries coming on stream in late Q4 2017/early 2018. Barrels produced per day decreased from Q4 2017 by 3bbl/d, 1%, to 646bbl/d, as production from the Rabul discoveries compensated for the natural decline in the wider Meseda field.

Production service fee pricing

For the three months ended March 31, 2018 the Company received an average service fee per barrel of oil of US\$50.00, compared to the average West Gharib price for the period of US\$58.75; a discount of 15% per barrel against the West Gharib price and 25% per barrel against Brent. The Company receives a discount to West Gharib due to the quality of the oil produced. For the three months ended March 31, 2017, the Company received an average service fee per barrel of oil of US\$34.34.

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Production service fee revenues (\$'000s)	2,276	2,513	1,996
Per bbl (\$/bbl)	44.11	50.00	34.34

Production service fee variance from prior year

For the three months ended March 31, 2018 (compared to the three months ended March 31, 2017) the increase in production service fee revenue of US\$0.5 million, 25%, to US\$2.5 million is due to an increase in realized sales price, US\$0.8 million, 40%, partially offset by lower production, US\$0.3 million, 15%.

\$000's	
Three months ended March 31, 2017	1,996
Price variance	787
Production variance	(270)
Three months ended March 31, 2018	2,513

Production service fee variance from prior quarter

For the three months ended March 31, 2018 (compared to the three months ended December 31, 2017) the increase in production service fee revenue of US\$0.2 million, 9%, is due to an increase in realized sales price (US\$0.3 million, 13%), partly offset by a decrease in production (US\$0.1 million, 4%).

\$000's	
Three months ended December 31, 2017	2,276
Price variance	296
Production variance	(59)
Three months ended March 31, 2018	2,513

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Morocco gas sales revenue

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Morocco - Sebou	3,646	3,597	2,210
Per bbl (\$/mcf)	9.72	10.03	9.29

The Company sells natural gas to two industrial customers in Kenitra, northern Morocco.

Morocco gas sales variance from prior quarter

For the three months ended March 31, 2018 (compared to the three months ended December 31, 2017) the decrease in Morocco gas sales revenue of US\$0.1 million, 3%, is due to an increase in realized sales price (US\$0.1 million, 3%) due to the strengthening of the MAD against the US\$, offset by a decrease in production (US\$0.2 million, 4%), due to customer demand.

\$000's	
Three months ended December 31, 2017	3,646
Price variance	112
Production variance	(161)
Three months ended March 31, 2018	3,597

Other products sales revenue

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

Royalties

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

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

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
NW Gemsa	3,900	3,656	2,811
Total royalties (US\$/boe) by concession	24.79	26.96	20.92

The Concession agreements allow for the recovery of operating and capital costs through a cost oil allocation which has an impact on the government share of production as highlighted below (as at March 31, 2018 and March 31, 2017):

Concession	SDX's WI ⁽¹⁾	Cost oil to Contractors ⁽²⁾	Capital cost recovered ⁽²⁾	Operating cost recovered ⁽²⁾	Excess oil to Contractor ⁽³⁾	Profit oil to Contractor ⁽⁴⁾
NW Gemsa (up to 10,000 BOPD Gross)	50%	30%	5 years	Immediate	Nil	16.1%
NW Gemsa (10,000 BOPD to 25,000 BOPD Gross)	50%	30%	5 years	Immediate	Nil	15.4%
NW Gemsa – Gas and LPG	50%	30%	5 years	Immediate	Nil	18.2%

(1) WI denotes the Company's Working interest. SDX's WI in the NW Gemsa asset increased to 50% from 27 January, 2017 (previously 10%) following the acquisition of Circle Oil's Egyptian assets described elsewhere in this MD&A.

(2) Cost oil is the amount of oil revenue that is attributable to SDX and its joint venture partners (the "Contractor") subject to the limitation of the cost recovery pool. Oil revenue up to a specified percentage is available for recovery by the Contractor for costs incurred in exploring and developing the concession. Operating costs and capital costs are added to a cost recovery pool (the "Cost Pool"). Capital costs for exploration and development expenditures are amortized into the Cost Pool over a specified number of years with operating costs being added to the Cost Pool as incurred.

(3) If the costs in the Cost Pool are less than the cost oil attributable to the Contractor, the shortfall, referred to as excess cost oil ("Excess Oil"), reverts 100 percent to the State in NW Gemsa.

(4) Profit oil is the amount of oil revenue that is attributable to the Contractor.

For the purposes of the operating and financial highlights disclosure in the MD&A, royalties per boe for the Company are calculated by taking total royalties divided by total production.

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Operational and financial highlights (continued)

Direct operating costs

The direct operating costs per concession were:

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
NW Gemsa	1,539	889	1,139
Block-H Meseda	657	809	696
Morocco - Sebou	330	296	176
Other	-	-	37
Total direct operating costs	2,526	1,994	2,048

The direct operating costs per boe per concession were:

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
NW Gemsa	8.28	5.44	7.11
Block-H Meseda	12.73	16.10	11.97
Morocco - Sebou	5.28	4.95	4.44
Total direct operating costs (US\$/boe) per concession	8.42	7.30	7.94

Direct operating costs for the three months ended March 31, 2018 were US\$2.0 million compared to US\$2.0 million for the comparative period of the prior year. Prior quarter direct operating costs are US\$0.5 million higher at US\$2.5 million.

NW Gemsa

NW Gemsa direct operating costs for the three months to March 31, 2018 were US\$0.9 million, US\$0.2 million lower than the comparative period of the prior year and \$US0.6 million lower than the prior quarter. This lower cost is primarily a result of headcount reductions at the operator in the second half of 2017.

Block H-Meseda

Direct operating costs for the three months to March 31, 2018 for Block H-Meseda were US\$0.1 million higher than the comparative period of the prior year and were US\$0.1 million higher than the prior quarter, in both instances due to workover costs billed in the current quarter.

Morocco - Sebou

Direct operating costs for the three months to March 31, 2018 for Morocco were US\$0.1 million higher than the comparative period of the prior year, which only included two months of the Morocco business post the acquisition from Circle Oil. On a proforma basis, direct operating costs were in line period on period.

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

For the three months ended March 31, 2018, depletion, depreciation and amortization ("DD&A") was US\$2.5 million compared to US\$3.5 million in the comparative period. The variance is due to production decline at NW Gemsa and upward 2P reserve revisions at NW Gemsa and in Morocco.

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Depletion, depreciation and amortization	4,706	2,533	3,522
Per bbl	15.69	9.27	13.65

The DD&A per concession was:

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
NW Gemsa	1,556	866	1,536
Block-H Meseda	272	277	290
Morocco - Sebou	2,870	1,362	1,693
Other	8	28	3
Total DD&A	4,706	2,533	3,522

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General and administrative expenses

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Wages and employee costs	1,805	1,883	1,696
Consultants - inc. PR/IR	165	128	100
Legal fees	77	94	72
Audit, tax and accounting services	131	132	62
Public company fees	72	195	104
Travel	172	83	89
Office expenses	360	278	202
IT expenses	42	156	111
Service recharges	(2,534)	(1,704)	(255)
Ongoing general and administrative expenses	290	1,245	2,181
Transaction costs	-	-	2,218
Total net G&A	290	1,245	4,399

General and administrative ("G&A") costs for the three months ended March 31, 2018 were US\$1.2 million compared to US\$4.4 million for the comparative period of the prior year; a decrease of US\$3.2 million, or 73%.

The decrease of US\$3.2 million is primarily due to the following:

- higher wages and salaries costs (US\$0.2 million) being increased headcount in London and Cairo (US\$0.6 million) and higher bonus accrual (US\$0.1 million). Q1 2017 included US\$0.5 million of 2016 bonus that was awarded and paid in 2017, resulting in the net movement of US\$0.2 million;
- higher audit and tax fees (US\$0.1 million) due to the increased size of the group;
- higher public company fees (US\$0.1 million) due to increased corporate activity;
- higher office expenses (US\$0.1 million) due to new office premises in Cairo and Rabat;
- the absence in 2018 of transaction costs from the Circle acquisition (US\$2.2 million); and
- greater service recharges ((US\$1.4 million)) relating to the increase in cross charging of technical and administrative time spent by the Company on its operating assets due to an overall increase in business activity in Q1 2018, in particular the drilling campaign in Morocco and drilling/development activity at South Disouq as well as an increase in the recovery of indirect overhead recharges from concession partners.

Current taxes

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

The Company has a corporate tax liability in relation to its production service agreement for Block H-Meseda. The Company's Egyptian subsidiary, Madison Egypt Limited, is subject to corporate tax.

The current taxes per concession were:

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
NW Gemsa	941	975	754
Block-H Meseda	250	339	230
Morocco - Sebou	-	-	-
Other	-	14	-
Total current taxes	1,191	1,328	984

Current taxes for the three months ended March 31, 2018 were US\$1.3 million compared to US\$1.0 million for the comparative period. The variance is due to the acquisition of an additional 40% share in the NW Gemsa concession and improved profitability at both NW Gemsa and Block-H Meseda.

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For the three months ended March 31, 2018

(prepared in US\$)

Operational and financial highlights (continued)

Net earnings

As per the Interim Consolidated Financial Statements for the three months ended March 31, 2018, the Company recorded a Total Comprehensive Income of US\$0.3 million, compared to a Total Comprehensive Income of US\$26.9 million for the three months ended March 31, 2017; a difference of US\$26.6 million.

The main components of this difference are:

- the US\$29.5 million gain on acquisition of the Circle Oil assets recorded in the comparative period;
- an increase in net revenues of US\$2.9 million as a result of the acquired Circle Oil assets and higher oil prices, offset by lower like-for-like production at NW Gemsa and Block-H Meseda;
- a lower DD&A charge of US\$1.0 million due to lower production and upward reserve revisions, particularly in NW Gemsa and Morocco;
- a lower G&A charge of US\$3.2 million due to the absence of Circle Oil acquisition costs and increased service recharges, offset by;
- increased exploration and evaluation expenditure due to the write off of the ELQ-1 and KSS-2 dry holes in Morocco (US\$3.2 million);
- an increased stock based compensation charge (US\$0.3 million); and
- higher taxation expense (US\$(0.3) million) mainly due to the introduction of the 40% of NW Gemsa from the acquisition from Circle Oil plc and the increased profitability of the Group.

Capital expenditures

The following table shows the capital expenditure for the Company and agrees to the notes 7 and 8 to the Interim Consolidated Financial Statements for the period ended March 31, 2018, which include discussion therein.

\$000's	Prior quarter	Three months ended March 31	
		2018	2017
Property, plant and equipment expenditures ("PP&E")	12,697	3,454	462
Exploration and evaluation expenditures ("E&E")	2,237	6,270	289
Office furniture and fixtures	368	224	60
Total capital expenditures	15,302	9,948	811

Decommissioning liability

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

For discussion of the Company's decommissioning liability, see note 12 to the Interim Consolidated Financial Statements for the three months ended March 31, 2018.

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Liquidity and capital resources

Share capital

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

\$000's	Prior quarter	Three months ended March 31 2018	Three months ended March 31 2017
High (CDN)	\$0.99	\$0.97	\$0.85
Low (CDN)	\$0.80	\$0.79	\$0.50
Average volume	105,327	153,497	153,381

The following table summarizes the outstanding common shares and options as at May 17, 2018, March 31, 2018 and December 31, 2017.

Outstanding as at:	May 17 2018	March 31 2018	December 31 2017
Common shares	204,493,040	204,493,040	204,493,040
Options (stock option plan)	2,851,667	2,851,667	2,851,667
Options (long term incentive plan)	7,214,506	7,214,506	3,449,461

The following table summarizes the outstanding stock option plan options as at March 31, 2018:

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

Stock based compensation

Stock option program

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

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

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. For further details see note 14 to the Interim Consolidated Financial Statements.

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Liquidity and capital resources (continued)

Capital resources

As at March 31, 2018 the Company had working capital of approximately US\$43.1 million. The Company expects to fund its 2018 capital program through funds generated from operations and cash on hand.

As at March 31, 2018, the Company had cash and cash equivalents of US\$29.3 million compared to US\$25.8 million as at December 31, 2017.

During the three months ended March 31, 2018 the Company had a net cash inflow of US\$3.4 million (including the effects of foreign exchange on cash and cash equivalents). For further detail, please see sources and uses table below.

As at March 31, 2018, the Company had US\$30.2 million in trade and other receivables compared to US\$37.7 million as at December 31, 2017. Approximately US\$19.7 million is due from a government of Egypt controlled corporation (EGPC) for oil sales, gas and NGL sales and production service fees, all of which is expected to be received in the normal course of operations. The Company also had US\$0.9 million related to the joint venture partner account for the South Disouq concession.

US\$3.8 million is owed by a Government of Morocco controlled corporation, Office National Hydrocarbures et des Mines ("ONHYM"), and relates to ONHYM's share of well completion and connection costs and production costs.

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

The other receivables of US\$2.2 million consist of US\$1.3 million related to prepayments predominantly associated with the Morocco and South Disouq drilling campaign, US\$0.5 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US\$0.4 million for other items.

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

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

\$000's	March 31 2018	December 31 2017
Current assets		
Cash and cash equivalents	29,277	25,844
Trade and other receivables	30,210	37,656
Inventory	4,044	5,157
Total current assets	63,531	68,657
Current liabilities		
Trade and other payables	17,713	19,459
Deferred income	495	495
Decommissioning liability	1,063	1,063
Current income taxes	1,169	915
Total current liabilities	20,440	21,932
Working capital	43,091	46,725

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

The following table outlines the Company's sources and uses of cash for the three months ended March 31, 2018 and 2017:

\$000's	Three months ended March 31	
	2018	2017
Sources		
Operating cash flow before working capital movements	6,746	915
Issuance of common shares	-	38,710
Cash balance acquired during the period	-	3,108
Changes in non-cash working capital	4,205	2,148
Effect of foreign exchange on cash and cash equivalents	327	-
Total sources	11,278	44,881
Uses		
Property, plant and equipment expenditures	(5,477)	(113)
Exploration and evaluation expenditures	(2,365)	(288)
Acquisition of subsidiaries	-	(28,056)
Finance costs paid	(3)	(37)
Income taxes paid	-	(8)
Effect of foreign exchange on cash and cash equivalents	-	(52)
Total uses	(7,845)	(28,554)
Increase in cash	3,433	16,327
Cash and cash equivalents at beginning of period	25,844	4,725
Cash and cash equivalents at end of period	29,277	21,052

The Company's operating cash flow before working capital movements for the three months ended March 31, 2018 compared to the comparative period ended March 31, 2017 has increased by US\$5.8 million primarily due to:

- an increase of US\$2.9 million in net revenues as a result of the acquisition of the Egyptian and Moroccan assets of Circle Oil, improved pricing at Block-H Meseda and NW Gemsa, offset by lower production attributable at Block-H Meseda and NW Gemsa; and
- a decrease in general and administrative costs in 2018 (US\$3.2 million) due to the absence of the Circle Oil transaction costs and increased service recharges, offset by the costs of the expanded business.

Financial instruments

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

Market risk

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

Commodity price risk

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

At March 31, 2018 the Company did not have any outstanding derivatives in place.

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Liquidity and capital resources (continued)

Financial instruments (continued)

Foreign currency risk

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

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

	Total per FS ⁽¹⁾	US\$	EGP US\$ Equivalent	GBP	MAD	Other
As at March 31, 2018						
Cash and cash equivalents	29,277	14,004	2,114	2,756	10,369	34
Trade and other receivables ⁽²⁾	28,942	19,281	46	208	9,368	39
Trade and other payables	(17,713)	(12,951)	(718)	(254)	(1,470)	(2,320)
Current income taxes	(1,169)	-	(1,169)	-	-	-
Balance sheet exposure	39,337	20,334	273	2,710	18,267	(2,247)

(1) FS denotes Financial Statements

(2) Excludes prepayments

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

Average: January 1, 2018 to March 31, 2018				Average: January 1, 2017 to March 31, 2017			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.6371	0.7188	9.1789	Period average	17.7806	0.8074	10.0542

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

Period end: March 31, 2018				Period end: March 31, 2017			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
March 31, 2018	17.6249	0.7134	9.1977	March 31, 2017	18.2177	0.8008	10.0195

Trade and other payables

The foreign currency risk from a trade and other payables perspective arises due to the fact that the Company's operations are conducted in Egypt and Morocco and its corporate offices are in London and Canada with G&A and other listing and regulatory costs in both jurisdictions.

As at March 31, 2018 and December 31, 2017 the Company's trade and other payables are as follows:

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

For discussion of the Company's trade and other payables, see note 10 to the Interim Consolidated Financial Statements for the period ended March 31, 2018.

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Credit risk

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

\$000's	Carrying amount	
	March 31 2018	December 31 2017
Cash and cash equivalents	29,277	25,844
Trade and other receivables ⁽¹⁾	28,942	34,781
Total	58,219	60,625

(1) excludes prepayments

Trade and other receivables

All of the Company's operations as at March 31, 2018 were conducted in Egypt and Morocco. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company does not anticipate any default as it expects continued payment from customers against invoiced sales. Management has further considered the recoverability of the Company's trade receivables balance alongside confirmations received from EGPC and concession operators of amounts to be settled, as well as forecast use of EGP in operations, and do not consider it necessary to apply discounting.

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

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

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

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

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

For discussion of the Company's trade and other receivables, see note 5a to the Interim Consolidated Financial Statements for the period ended March 31, 2018.

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Liquidity and capital resources (continued)

Financial instruments (continued)

Cash and cash equivalents

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

Capital management

The Company defines and computes its capital as follows:

\$000's	Carrying amount	
	March 31 2018	December 31 2017
Equity	115,282	114,619
Working capital ⁽¹⁾	(43,091)	(46,725)
Total capital	72,191	67,894

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

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

Accounting policies and estimates

The Company is required to make judgments, assumptions and estimates in the application of accounting policies that could have a significant impact on our financial results. Actual results may differ from those estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further information on the basis of presentation and our significant accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2017.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective January 1, 2018.

Further information on the accounting policies and estimates can be found in the notes to the Interim Consolidated Financial Statements and MD&A for the three months ended March 31, 2018.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the first three months of 2018.

Management's Discussion & Analysis

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(prepared in US\$)

Business risk assessment

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

Political risk

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

Financial resources

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

Exploration, development and production

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

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

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

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Business risk assessment (continued)

Oil and natural gas prices

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

Reserve estimates

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

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

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

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

Reliance on operators and key employees

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

Government regulations

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

Environmental factors

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

Insurance

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

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(prepared in US\$)

Regulatory matters

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

Operating hazards and risks

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

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

Repatriation of earnings

All of the Company's production and earnings are generated in Egypt and Morocco. Currently there are no restrictions on foreign entities repatriating earnings from Egypt. However, there can be no assurance that restrictions on repatriation of earnings from Egypt will not be imposed in the future. A company can repatriate earnings from Morocco each year up to the limit of its retained earnings.

Disruptions in production

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

Foreign investments

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

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

Competition

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

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

Disclosure controls and procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the period ended March 31, 2018. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109 as at March 31, 2018.

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Summary of quarterly results

Fiscal year Financial \$000's	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash, beginning of period	25,844	30,469	27,627	21,052	4,725	4,961	6,949	8,671
Cash, end of period	29,277	25,844	30,469	27,627	21,052	4,725	4,961	6,949
Working capital	43,091	46,725	58,397	43,048	40,039	11,823	9,593	8,232
Comprehensive income/(loss)	331	(2,621)	4,408	(427)	26,947	(2,058)	140	(25,164)
Net income/(loss) per share - basic	0.002	(0.013)	0.022	(0.005)	0.172	(0.030)	0.002	(0.45)
Capital expenditures	9,948	15,328	3,423	1,504	811	857	188	6,475
Total assets	140,497	141,057	138,898	132,766	132,794	41,617	43,901	47,231
Shareholders' equity	115,282	114,619	116,981	102,559	102,964	37,264	39,161	38,560
Common shares outstanding (000's)	204,493	204,493	204,459	186,900	186,900	79,844	79,844	75,934

Management's Discussion & Analysis

For the three months ended March 31, 2018

(prepared in US\$)

Fiscal year Operational	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
NW Gemsa oil sales (bbl/d)	1,507	1,710	1,893	1,832	1,493	468	510	554
Block H Meseda production service fee (bbl/d)	558	561	551	623	646	679	704	616
Morocco gas sales (boe/d)	664	680	611	651	441	-	-	-
Other products sales (boe/d)	307	310	384	419	287	3,166	-	-
Total boe/d	3,036	3,261	3,439	3,525	2,867	4,313	1,214	1,170
NW Gemsa oil sales volumes (bbls)	135,630	157,302	174,202	166,693	134,395	43,087	46,935	50,407
Block H Meseda production service fee volumes (bbls)	50,257	51,599	50,674	56,736	58,126	62,504	64,792	56,026
Morocco gas sales volumes (boe)	59,779	62,543	56,219	59,246	39,646	-	-	-
Other products sales volumes (boe)	27,646	28,550	35,404	38,143	25,832	291,261	-	-
Total sales and service fee volumes (boe)	273,312	299,994	316,499	320,818	257,999	396,852	111,727	106,433
Brent oil price (US\$/bbl)	66.86	61.52	52.07	49.68	53.64	49.23	45.78	45.54
West Gharib oil price (US\$/bbl)	58.75	53.59	44.48	41.50	41.93	38.07	34.86	30.38
Realized oil price (US\$/bbl)	62.81	57.77	48.28	45.56	48.73	44.56	40.84	39.90
Realized service fee (US\$/bbl)	50.00	44.11	36.41	33.98	34.34	31.12	28.32	24.51
Realised oil sales price and service fees	59.34	54.39	45.61	42.62	44.38	36.60	33.58	31.80
Realized Morocco gas price (US\$/mcf)	10.03	9.72	9.53	9.44	9.29	-	-	-
Royalties (US\$/boe)	13.92	9.89	11.94	10.71	11.37	6.33	7.37	8.11
Operating costs (US\$/boe)	7.30	8.42	8.44	9.38	7.94	4.41	11.11	12.12
Netback - (US\$/boe)	32.80	28.26	23.54	21.48	23.60	9.08	15.10	11.56