



# Management's Discussion & Analysis

## 2017 Q1 Interim Report

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Basis of presentation

The following Management's Discussion and Analysis (the "MD&A") dated May 19, 2017 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, 2017. This MD&A should be read in conjunction with the accompanying unaudited Interim Consolidated Financial Statements for the three months ended March 31, 2017 and the audited consolidated financial statements for the year ended December 31, 2016.

As discussed in this MD&A, and in note 3 to the unaudited 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, 2016 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](http://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.

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 unaudited 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 unaudited 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.

**Business combination**

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

In preparing the unaudited Interim Consolidated Financial Statements the Company must conform with IFRS 3 – Business Combinations. This means that in the unaudited Interim Consolidated Financial Statements for the three months ended March 31, 2017, the 2017 figures in the Interim Consolidated Statement of Comprehensive Income relate to the enlarged entity, whereas the 2016 comparatives contain three months of revenue and costs for the legacy SDX business only.

**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 schedule under the outlook section below.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### 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 six concessions with short and long-term potential. The Company exited its operation in Cameroon on July 31, 2016. 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 Egypt. 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. In January 2017, the Company acquired 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 unaudited Interim Consolidated Financial Statements.

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 one 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.); and
- Morocco (exploration) - The Lalla Mimouna concession ("Lalla Mimouna") – (75% W.I.);

The Company assigned its interest in the Bakassi West concession ("Bakassi West") – (35% W.I.) to one of the partners in the concession effective July 31, 2016 and withdrew from the concession.

#### 2017 Work program

The Company's capital expenditure program for 2017 is expected to be approximately US\$15.5 million.

In North West Gemsa, the Company will invest c.US\$2.2 million for its share of a 12 well workover program focused on ESP installation and maintenance to increase production uptime.

In Meseda, up to c.US\$4.2 million will be contributed for the Company's share of the cost of drilling two exploration wells and two development wells (subject to government approval), and completing up to six pump replacements and upgrades in existing wells to increase production. Furthermore, to accommodate the expected increase in production in 2017, it is planned to expand the central processing facility to enable it to handle 20,000 barrels of fluid per day compared to its current operating range of 12,000-14,000 barrels of fluid per day.

In South Disouq the Company estimates that it will incur up to US\$1.3 million in relation to the drilling and testing of the SD-1X well. At present the Company is reviewing the costs associated with a number of different development plans for the South Disouq discovery. An update on expected costs and timing for the development will be provided once this review process has been completed.

In Morocco, a drilling program of up to seven wells is targeted for 2017. The drilling cost of up to US\$7.8 million will cover three development and two appraisal wells in the Sebou concession and two exploration wells in the Lalla Mimouna concession.

## 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 <sup>(1)</sup>	Three months ended March 31	
		2017	2016
Oil revenue	1,920	6,549	1,583
Royalties	(824)	(2,811)	(679)
Net oil revenue	1,096	3,738	904
Gas revenue	2,210	2,410	-
Royalties	(1,059)	(104)	-
Net gas revenue	1,151	2,306	-
NGL revenue	2,361	169	-
Royalties	(1,199)	(73)	-
Net NGL revenue	1,162	96	-
Production service fee revenue	1,945	1,996	1,206
<b>Total net revenue</b>	<b>5,354</b>	<b>8,136</b>	<b>2,110</b>
Operating costs	(1,752)	(2,048)	(999)
<b>Netback (pre tax)</b>	<b>3,602</b>	<b>6,088</b>	<b>1,111</b>
Oil sales (bbl/d)	468	1,493	606
Gas sales (boe/d)	3,273	812	-
NGL sales (bbl/d)	445	40	-
Production service fee (bbl/d)	679	646	646
<b>Total boe/d</b>	<b>4,865</b>	<b>2,991</b>	<b>1,252</b>
Oil sales volumes (bbls)	43,087	134,395	55,159
Gas sales volumes (boe)	301,137	73,037	-
NGL sales volumes (bbls)	40,897	3,583	-
Production service fee volumes (bbls)	62,504	58,126	58,823
<b>Total sales volumes (boe)</b>	<b>447,625</b>	<b>269,141</b>	<b>113,982</b>
Brent Oil price (US\$/bbl)	\$49.23	\$53.64	\$33.73
West Gharib oil price (US\$/bbl)	\$34.86	\$41.93	\$25.65
Realized oil price (US\$/bbl)	\$44.56	\$48.73	\$28.69
Realized service fee (US\$/bbl)	\$31.12	\$34.34	\$18.51
Realised oil sales price and service fees (US\$/bbl)	\$36.60	\$44.38	\$24.46
Realized gas price (US\$/mcf)	\$1.22	\$5.50	-
Realized NGL price (US\$/bbl)	\$57.73	\$47.17	-
Average realized price - all products (US\$/boe)	\$18.85	\$41.33	\$24.46
Total royalties (US\$/boe)	\$6.89	\$11.10	\$5.96
Operating costs (US\$/boe)	\$3.91	\$7.61	\$8.77
<b>Netback (US\$/boe)</b>	<b>\$8.05</b>	<b>\$22.62</b>	<b>\$9.73</b>
Capital expenditures	857	811	5,819

(1) Three months ended December 31, 2016

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Operational and financial highlights (continued)

#### Net revenue overview

The overall US\$6.0 million increase in Net revenues in Q1 2017 compared to Q1 2016 can be explained as follows:

- US\$5.0 million of the US\$6.0 million increase relates to revenues of the acquired Circle Oil assets recognized from January 27, 2017 to March 31, 2017 (US\$2.8 million NW Gemsa (acquired 40% share); US\$2.2 million Morocco);
- the remaining US\$1.0 million of the increase is allocated between SDX's existing 10% share of NW Gemsa (US\$0.2 million) and SDX's unchanged working interest in Block-H Meseda (US\$0.8 million).

This movement is summarised below:

\$000's	
Total net revenue three months ended March 31, 2017	8,136
Total net revenue three months ended March 31, 2016	2,110
<b>Increase period on period</b>	<b>6,026</b>
Attributable to:	
Increase in SDX's 10% share of NW Gemsa	242
Increase in SDX's share of Meseda	790
Acquired 40% share of NW Gemsa	2,794
Acquired Moroccan gas business	2,200
<b>Total increase in period on period</b>	<b>6,026</b>

As discussed in the 'Gas sales' section below, in Q4 2016, the Company recognised natural gas and NGL sales from the NW Gemsa concession for the period October 1, 2013 to December 31, 2016. As a result, Q4 2016 reflected net revenues from natural gas and NGLs of US\$2.3 million. In Q1 2017, net revenues reflected those earned during the period and amounted to US\$0.2 million.

#### Oil sales and production service fee revenues

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
Oil sales revenue	1,920	6,549	1,583
Production fee revenues	1,945	1,996	1,206
<b>Oil sales and production fee revenues</b>	<b>3,865</b>	<b>8,545</b>	<b>2,789</b>

Oil sales revenue of for the three months ended March 31, 2017 of US\$6.55 million includes US\$4.71 million relating to the acquisition from Circle Oil plc which completed on January 27, 2017.

#### Oil sales revenue (relates to NW Gemsa only)

##### Oil sales volumes

Total oil sales volumes for the three months ended March 31, 2017 averaged 1,493 bbl/d compared to 606 bbl/d for the comparative period of the prior year. Of this, 1,078 bbl/d is due to the additional 40% share in the concession that was acquired from Circle Oil plc.

Total sales volumes increased by 79,236 barrels, 144%, to 134,395 barrels in the three months ended March 31, 2017 compared to 55,159 in the comparative period of 2016. Of this, 97,000 is due to the additional 40% share in the concession that was acquired from Circle Oil plc. On a like-for-like basis (i.e. 10% share), sales volumes decreased by 17,765 barrels, 32%. The NW Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline.

On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2016, Q1 2017 sales volumes of 186,792 barrels (2,075 bbl/d) compare to Q1 2016 sales volumes of 275,795 (3,030 bbl/d), a 32% decline again due to natural reservoir 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 oil revenues and capital and operational expenditure. The Operational and Financial Highlights table on the previous page 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, 2017 the Brent price ranged from a high of US\$55.82 per barrel on February 23, 2017 to a low of US\$49.56 per barrel on March 22, 2017. The current low oil price environment is due to over-supply in the market particularly from OPEC countries and US shale producers, the lifting of trade sanctions on Iran, and lower demand as a result of slower growth in countries such as China. At this time, the Company does not hedge any of its production.

For the three months ended March 31, 2017, oil sales made by the Company achieved an average price per barrel of oil of US\$48.73 compared to the average Brent Oil price ("Brent") of US\$53.64; a discount of US\$4.91, 9% 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.

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
Crude oil sales	1,920	6,549	1,583
Per bbl	44.56	48.73	28.69

#### Oil sales revenue variance from prior year

For the three months ended March 31, 2017 (compared to the three months ending March 31, 2016) oil sales revenue increased due to an increase in sales price of US\$2.7 million, 170%, and an increase in sales volume of US\$2.3 million, 144%, due to the acquired additional 40% of the concession, partly offset by natural reservoir decline.

\$000's	
Three months ended March 31, 2016	1,583
Price variance	2,693
Production variance	2,273
<b>Three months ended March 31, 2017</b>	<b>6,549</b>

On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2016, the variance is as follows:

\$000's	
Three months ended March 31, 2016	7,915
Price variance	3,813
Production variance	(2,550)
<b>Three months ended March 31, 2017</b>	<b>9,178</b>

On this basis, improved pricing resulted in a 48% increase in revenue, partly offset by a 32% reduction in sales volumes, driven by natural reservoir decline.

#### Oil sales revenue variance from prior quarter

For the three months ended March 31, 2017 (compared to the three months ended December 31, 2016) oil sales revenue increased due to an increase in sales price of US\$0.6 million, 29%, and an increase in sales volume of US\$4.1 million, 212% due to the acquired additional 40% of the concession, partly offset by natural reservoir decline.

\$000's	
Three months ended December 31, 2016	1,920
Price variance	559
Production variance	4,070
<b>Three months ended March 31, 2017</b>	<b>6,549</b>

On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2016, the variance is as follows:

\$000's	
Three months ended December 31, 2016	9,600
Price variance	846
Production variance	(1,268)
<b>Three months ended March 31, 2017</b>	<b>9,178</b>

On this basis, improved pricing resulted in a 9% increase in revenue, offset by a 13% reduction in sales volumes, driven by natural reservoir decline.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### 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 697 barrels, 1%, to 58,126 barrels compared to the three months ended March 31, 2016. Barrels produced per day remained consistent period on period at 646 bbl/d, as natural reservoir decline has been mitigated through an ongoing well workover program in the field.

##### Production service fee pricing

For the three months ended March 31, 2017 the Company received an average service fee per barrel of oil of US\$34.34 compared to the average West Gharib price of US\$41.93; a discount of US\$7.59, 18%, per barrel. The Company receives a discount to West Gharib due to the quality of the oil produced.

\$000's unless stated	Prior Quarter	Three months ended March 31	
		2017	2016
Production service fees	1,945	<b>1,996</b>	1,206
Per bbl	31.12	<b>34.34</b>	18.51

##### Production service fee variance from prior year

For the three months ended March 31, 2017 (compared to the three months ended March 31, 2016) the increase in production service fee revenue of US\$0.8 million, 66%, to US\$2.0 million is due to an increase in realized sales price, US\$0.8 million or, 67%.

\$000's	
Three months ended March 31, 2016	1,206
Price variance	804
Production variance	(14)
<b>Three months ended March 31, 2017</b>	<b>1,996</b>

##### Production service fee variance from prior quarter

For the three months ended March 31, 2017 (compared to the three months ended December 31, 2016) the increase in production service fee revenue of US\$0.1 million, 3%, to US\$2.0 million is due to an increase in realized sales price (US\$0.2 million) or 10%, partially offset by a decrease in sales volume, US\$0.1 million, or 7%.

\$000's	
Three months ended December 31, 2016	1,945
Price variance	187
Production variance	(136)
<b>Three months ended March 31, 2017</b>	<b>1,996</b>

## Gas sales

\$'000's	Prior Quarter	Three months ended March 31	
		2017	2016
Morocco - Sebou	-	2,210	-
NW Gemsa	2,210	200	-
<b>Total natural gas sales</b>	2,210	2,410	-

### Morocco

Following the acquisition of the Moroccan assets of Circle Oil plc in January 2017, the Company sells natural gas to two industrial customers in Kenitra, northern Morocco. During the period January 27, 2017 to March 31, 2017, the realized natural gas price was \$9.29/mcf on sales volumes net to SDX of 4.03mcf/d.

On a pro forma basis for the three months ended 31 March, 2017, the natural gas sales price was \$9.23/mcf on net sales volumes of 3.76mcf/d (gross sales volumes 4.82 mcf/d), compared to \$8.51/mcf on net sales volumes of 4.68mcf/d (gross sales volumes 6.24 mcf/d) for the three months ended March 31, 2016. The period on period variance is due to fluctuations in customer demand.

### NW Gemsa

The Company commenced sales of gas and Natural Gas Liquids ("NGLs") in February 2013 from the NW Gemsa concession, recognizing revenue from February 2013 to September 2013 of that year. Subsequent to September 2013, the Company ceased recognizing revenue due 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, 2017, however the comparative period has not been restated as the dispute had not been resolved at that time.

### 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:

per unit amounts	Prior Quarter	Three months ended March 31	
		2017	2016
N W Gemsa	19.12	20.92	12.31
<b>Total royalties by concession (US\$/boe)</b>	19.12	20.92	12.31

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, 2017 and December 31, 2016):

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

(1) WI denotes the Company's Working interest

(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.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Operational and financial highlights (continued)

#### Direct operating costs

The direct operating costs per concession were:

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
NW Gemsa	1,014	1,139	340
Block-H Meseda	737	696	651
Morocco - Sebou	-	176	-
Other	1	37	8
<b>Total direct operating costs</b>	<b>1,752</b>	<b>2,048</b>	<b>999</b>

The direct operating costs per boe per concession were:

per unit amounts	Prior Quarter	Three months ended March 31	
		2017	2016
N W Gemsa	2.63	6.65	6.16
Meseda - Block H	11.79	11.97	11.07
Morocco - Sebou	-	4.43	-
<b>Total direct operating costs by concession (US\$/boe)</b>	<b>3.91</b>	<b>7.61</b>	<b>8.77</b>

Direct operating costs for the three months ended March 31, 2017 were US\$2.0 million compared to US\$1.0 million for the comparative period of the prior year. Prior quarter direct operating costs are US\$0.2 million lower at US\$1.8 million compared to US\$2.0 million for the three months to March 31, 2017.

#### NW Gemsa

NW Gemsa direct operating costs for the three months to March 31, 2017 were US\$0.8 million higher than the comparative three month period of the prior year. This variance is predominantly attributable to the additional 40% interest in the concession acquired during the current year.

Direct operating costs are \$US0.1 million higher than the prior quarter. This was a result of the additional 40% interest in the concession acquired, offset by decreased allocation of operator overheads (US\$0.3 million) and the absence of back-dated operating costs associated with the recognition of NGL and gas sales revenues (US\$0.3 million), both of which occurred during Q4 2016.

#### Block H-Meseda

Direct operating costs for the three months to March 31, 2017 for Block H-Meseda were US\$0.1 million higher than the comparative three month period of the prior year and \$US0.1 million lower than the prior quarter.

#### Morocco - Sebou

Direct operating costs for the period January 27, 2017 to March 31, 2017, for the Sebou concession, Morocco, were US\$0.74/mcf, or US\$4.43/bbl.

On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2016, direct operating costs for the three months ended March 31, 2017 were US\$0.93/mcf, versus US\$0.56/mcf for the corresponding period in 2016. The primary driver for the increase period on period is reduced sales volumes (Q1 2017: 3.8mcf/d, Q1 2016: 4.7mcf/d) due to fluctuations in customer demand.

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

For the three months ended March 31, 2017, depletion, depreciation and amortization ("DD&A") was US\$3.5 million compared to US\$0.8 million in the comparative period.

\$000's except per unit amounts	Prior Quarter	Three months ended March 31	
		2017	2016
Depletion, depreciation and amortization	804	3,522	817
Per bbl	1.80	13.09	7.17

The DD&A per concession was:

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
NW Gemsa	543	1,536	543
Meseda - Block H	257	290	260
Morocco - Sebou	-	1,693	-
Corporate	4	3	14
<b>Total DD&amp;A</b>	<b>804</b>	<b>3,522</b>	<b>817</b>

### General and administrative costs

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
Wages and employee costs	603	1,696	553
Consultants - inc. PR/IR	109	100	46
Legal fees	55	72	34
Audit, tax and accounting services	64	62	60
Public company fees	39	104	54
Travel	62	89	43
Office expenses	113	202	147
IT expenses	103	111	46
Service recharges	(466)	(255)	(123)
Ongoing general and administrative expenses	682	2,181	860
Transaction costs	-	2,218	-
<b>Total net G&amp;A</b>	682	4,399	860

General and administrative ("G&A") costs for the three months ended March 31, 2017 were US\$4.4 million compared to US\$0.9 million for the comparative period of the prior year; an increase of US\$3.5 million, or 389%.

The increase of US\$3.5 million is primarily due to the following:

- higher wages and employee costs (US\$1.2 million) due to payments made under the SDX employee bonus scheme of US\$0.8 million, including tax, staff costs at the acquired Rabat office (US\$0.2 million) and increased technical personnel headcount (US\$0.2 million);
- higher public company fees of US\$0.1 million due to AGM-related costs and annual filings, being incurred in Q1 2017 rather than Q3 due to an earlier AGM date;
- higher office expenses of US\$0.1 million due to the acquired Rabat office;
- higher IT expenses of US\$0.1 million due to increased technical software licence costs;
- transaction costs from the Circle acquisition of US\$2.2 million associated with investment banking fees, legal and financial due diligence fees, staff redundancy and public company filing requirements; and
- greater service recharges (US\$0.1 million) relating to the increase in cross charging of technical and administrative time spent by the Company on its exploration assets and the recovery of indirect overhead recharges from a concession partner.

### 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 service agreement for Block H-Meseda. The Company's Egyptian subsidiary, Madison Egypt Limited, is subject to corporate tax on its profits at an income tax rate of 22.5%.

The Company's Moroccan operations benefit from a 10 year corporation tax holiday from first production.

The current taxes per concession were:

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
N W Gemsa	667	754	174
Meseda - Block H	(24)	230	32
Morocco - Sebou	-	-	-
<b>Total current taxes</b>	643	984	206

Current taxes for the three months ended March 31, 2017 were US\$1.0 million compared to US\$0.2 million for the comparative period of the prior year. 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 due to the increase in sales realizations (pricing), partly offset by production decreases.

Current taxes increased by US\$0.3 million for the three months ended March 31, 2017 when compared to the previous quarter due to the increased share in NW Gemsa, offset by reduced NGL and gas taxes (US\$0.1 million). The US\$0.2 million increase in Meseda current tax is due to Q4 2016 reflecting the reversal of an earlier over-accrual.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Operational and financial highlights (continued)

#### Net earnings

As per the unaudited Interim Consolidated Financial Statements for the three months ended March 31, 2017, the Company recorded a Total Comprehensive Income of US\$26.9 million, compared to a Total Comprehensive Loss of US\$0.9 million for the three months ended March 31, 2016; a difference of US\$27.8 million.

The main components of the difference of US\$27.8 million are:

- an increase net revenues of US\$6.0 million as a result of the acquired Circle Oil assets, the recognition of gas and NGL revenues at NW Gemsa and higher oil prices, offset by lower like-for-like production at NW Gemsa and Block-H Meseda;
- a US\$29.5 million gain on acquisition of the Circle Oil assets;
- lower finance charges (\$US0.3 million); offset by;
- a foreign exchange gain of US\$0.1 million;
- higher exploration and evaluation expense of US\$(0.1) million as a result of greater early stage exploration and evaluation activity within the Company;
- greater operating expenses (US\$(1.1) million) and DD&A charge (US\$(2.7) million) incurred by the enlarged business;
- higher G&A expenses (\$US(3.5) million) due to transaction costs and staff bonuses; and
- higher taxation expense (\$US(0.8) million) mainly due to the introduction of the 40% of NW Gemsa from the acquisition from Circle Oil plc.

#### Capital expenditures

The following table shows the capital expenditure for the Company and agrees to the notes 7 and 8 to the unaudited Interim Consolidated Financial Statements for the period ended March 31, 2017.

\$000's	Prior Quarter	Three months ended March 31	
		2017	2016
Property, plant and equipment expenditures ("PP&E")	591	462	435
Exploration and evaluation expenditures ("E&E")	212	289	5,384
Office furniture and fixtures	53	60	-
<b>Total capital expenditures</b>	<b>856</b>	<b>811</b>	<b>5,819</b>

During the three months ended March 31, 2017, the Company incurred capital expenditures of US\$0.5 million on PP&E and office furniture and fixtures, and US\$0.3 million on E&E.

The PP&E additions of US\$0.5 million predominantly related to well workovers in the Block-H Meseda concession (\$US0.4 million) and the refurbishment of the Rabat corporate office in Morocco (US\$0.1 million).

During the three months ended March 31, 2017, E&E additions consisted of US\$0.2 million at South Disouq for seismic interpretation on the SD-1X well and US\$0.1 million in Morocco in respect of annual training fees for the exploration concessions.

The Company has also recorded, within the table in the "Property, plant and equipment" section below, the assets acquired from Circle Oil plc, at cost (fair value) of US\$43.2 million.

#### Property, plant and equipment

The following table shows the cumulative costs and associated depletion, depreciation and impairment for property, plant and equipment on all of the Company's oil and gas properties. Please see note 7 to the unaudited Interim Consolidated Financial Statements for further details:

\$000's	March 31	December 31
	2017	2016
Oil and gas properties, at cost	76,062	32,368
Accumulated depletion, depreciation, amortization and impairment	(23,381)	(19,862)
Net Book Value	52,681	12,506
Furniture and fixtures, at cost	248	188
Accumulated depletion, depreciation and amortisation	(92)	(89)
Net Book Value	156	99
<b>Total property, plant and equipment, end of period</b>	<b>52,837</b>	<b>12,605</b>

### Intangible exploration and evaluation assets

The following table shows the cumulative costs for the intangible exploration and evaluation assets on all the Company's oil and gas properties. Please see note 8 to the unaudited Interim Consolidated Financial Statements for further details:

\$000's	
<b>Balance at December 31, 2015</b>	<b>23,473</b>
Additions	11,566
Exploration and evaluation expense	(24,416)
<b>Balance at December 31, 2016</b>	<b>10,623</b>
Additions	289
<b>Balance at March 31, 2017</b>	<b>10,912</b>

During the three months ended March 31, 2017, E&E additions consisted of US\$0.2 million at South Disouq for seismic interpretation on the SD-1X well and US\$0.1 million in Morocco in respect of annual training fees for the exploration concessions.

During the prior year, the Company completed its activities in Cameroon and made a full provision against the capitalised exploration cost of US\$24.4 million.

### Decommissioning liability

Upon acquisition of Circle Oil's Moroccan assets, the Company assumed responsibility for the decommissioning of these assets.

As at March 31, 2017 the total future undiscounted cash flows amounted to US\$4.4 million, to be incurred between the years 2017 and 2020 and the liability was discounted using a risk-free rate of 3.0%. The discounted liability of US\$4.0 million is recognized in the Interim Consolidated Balance Sheet as set out below. Expenditure of US\$1.2 million is expected to be incurred within the next 12 months.

\$000's	Carrying amount	
	March 31 2017	December 31 2016
Decommissioning liability, beginning of period	-	-
Changes in estimate	-	-
Liabilities acquired through business combination	3,968	-
Accretion	15	-
<b>Decommissioning liability, end of period</b>	<b>3,983</b>	<b>-</b>
Of which:		
Current	1,200	-
Non-current	2,783	-

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

### 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	
		2017	2016
High (CDN)	\$0.55	<b>\$0.85</b>	\$0.70
Low (CDN)	\$0.34	<b>\$0.50</b>	\$0.31
Average volume	64,108	<b>153,381</b>	33,001

The following table summarizes the outstanding common shares, options and warrants as at May 19, 2017, March 31, 2017 and December 31, 2016.

	May 19 2017	March 31 2017	December 31 2016
Outstanding as at:			
Common shares	186,900,253	<b>186,900,253</b>	79,843,902
Options	2,445,000	<b>2,445,000</b>	2,445,000

The increase in Common shares as at March 31, 2017 relates to the Common shares issued on January 27, 2017 to fund the acquisition of Circle Oil plc's Egyptian and Moroccan assets, see further discussion elsewhere in this MD&A and within note 3 to the unaudited Interim Consolidated Financial Statements.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Liquidity and capital resources (continued)

#### Share capital (continued)

The following table summarizes the outstanding options as at March 31, 2017:

Exercise price range	Outstanding options		Vested options	
	Number of options	Remaining contractual life	Number of options	Remaining contractual life
CAD \$0.36 - \$0.63	2,445,000	3 - 5 years	1,566,651	3 - 5 years

#### Stock based compensation

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

#### Capital resources

As at March 31, 2017 the Company had working capital of approximately US\$40.0 million. The Company expects to fund its 2017 capital program through funds generated from operations and cash on hand.

As at March 31, 2017, the Company had cash and cash equivalents of US\$21.1 million compared to US\$4.7 million as at December 31, 2016.

During the three months the Company had net cash inflows of US\$16.4 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, 2017, the Company had US\$42.3 million in trade and other receivables compared to US\$9.5 million as at December 31, 2016. Approximately US\$31.8 million will be due from a government of Egypt controlled corporation (EGPC) for oil sales, gas and NGL sales and production service fees. US\$31.4 million of this is expected to be received in the normal course of operations and the remaining US\$0.4 million which was withheld as a rolling production guarantee towards the work program for the South Disouq concession and was collected in Q2 2017. US\$4.5 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, pipeline construction and production costs.

US\$4.8 million is owing from third party gas customers in Morocco and is expected to be collected within agreed credit terms.

Subsequent to March 31, 2017, the Company collected US\$3.4 million of trade receivables from those that were outstanding at March 31, 2017; US\$0.2 million for NW Gemsa representing October 2016 crude oil sales invoices, US\$1.2 million for Meseda representing January and February 2017 production service fees, US\$0.4 million of the rolling South Disouq production guarantee referred to above and US\$1.6 million from third party gas customers in Morocco.

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 2017	December 31 2016
<b>Current assets</b>		
Cash and cash equivalents	21,052	4,725
Trade and other receivables	42,281	9,463
Inventory	2,835	1,698
<b>Total current assets</b>	<b>66,168</b>	<b>15,886</b>
<b>Current liabilities</b>		
Trade and other payables	23,903	3,674
Deferred income	475	-
Decommissioning liability	1,200	-
Current income taxes	551	389
<b>Total current liabilities</b>	<b>26,129</b>	<b>4,063</b>
<b>Working capital</b>	<b>40,039</b>	<b>11,823</b>

The increase in working capital of US\$28.2 million since December 31, 2016 for SDX Energy Inc. is as a result of i) net cash increase of US\$16.4 million, ii) an increase in trade receivables of US\$32.8 million, iii) an increase in inventory of US\$1.1 million, offset by iv) an increase in trade payables of US\$20.2 million, v) an increase in deferred income of US\$0.5 million, vi) an increase in decommissioning liability of US\$1.2 million and vii) an increase in current income tax liability of US\$0.2 million.

The following table outlines the Company's sources and uses of cash for the three months ended March 31, 2017 and 2016:

\$000's	Three months ended March 31	
	2017	2016
<b>Sources</b>		
Operating cash flow before working capital movements	915	(37)
Private placement on London Stock Exchange AIM	38,710	-
Cash balance acquired during the period	3,108	-
Changes in non-cash working capital	2,148	1,830
<b>Total sources</b>	<b>44,881</b>	<b>1,793</b>
<b>Uses</b>		
Property, plant and equipment expenditures	(113)	-
Exploration and evaluation expenditures	(288)	(918)
Acquisition of subsidiaries	(28,056)	-
Finance costs paid	(37)	(93)
Income taxes paid	(8)	-
Effect of foreign exchange on cash and cash equivalents	(52)	(281)
<b>Total uses</b>	<b>(28,554)</b>	<b>(1,292)</b>
<b>Increase in cash</b>	<b>16,327</b>	<b>501</b>
Cash and cash equivalents at beginning of period	4,725	8,170
<b>Cash and cash equivalents at end of period</b>	<b>21,052</b>	<b>8,671</b>

The Company's operating cash flow before working capital movements for the three months ended March 31, 2017 compared to the prior period ended March 31, 2016 has increased by US\$0.9 million primarily due to:

- i) an increase of US\$6.0 million in net revenues as a result of the acquisition of the Egyptian and Moroccan assets of Circle Oil (US\$4.9 million) in 2017, improved pricing partly offset by lower production at Block-H Meseda (US\$0.8 million) and the recognition of net gas and NGL revenues (US\$0.3 million) in Q1 2017;
- ii) an increase in operating costs of US\$1.1 million as a result of the Circle Oil acquisition, partly offset by production declines;
- iii) an increase in general and administrative costs in 2017 (US\$3.5 million) due to Circle Oil transaction costs, the costs of the expanded business and staff bonuses;
- iv) an increase in expensed cash exploration and evaluation expenditure of US\$0.1 million; and
- v) lower finance costs of US\$0.1 million due to lower interest charges.

### 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. 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. The Company will not enter into commodity contracts other than to meet the Company's expected sale requirements.

At March 31, 2017 the Company did not have any outstanding derivatives in place.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(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 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 <sup>(1)</sup>	US\$	EGP	GBP	MAD	Other
			US\$ Equivalent			
<b>As at December 31, 2016</b>						
Cash and cash equivalents	21,052	11,838	2,751	1,838	4,102	523
Trade and other receivables	42,281	32,263	15	676	9,314	13
Trade and other payables	(23,903)	(10,640)	(8,886)	(980)	(3,293)	(104)
Current income taxes	(551)	-	(551)	-	-	-
<b>Balance sheet exposure</b>	<b>38,879</b>	<b>33,461</b>	<b>(6,671)</b>	<b>1,534</b>	<b>10,123</b>	<b>432</b>

(1) denotes Financial Statements

The average exchange rates during the three months ended March 31, 2017 and 2016 were 1 US\$ equals:

#### Average: January 1, 2017 to March 31, 2017

	USD/EGP	USD/GBP	USD/MAD
Period average	17.7806	0.8074	10.0542

#### Average: January 1, 2016 to March 31, 2016

	USD/EGP	USD/GBP	USD/MAD
Period average	7.9778	0.6981	9.8244

The exchange rates as at March 31, 2017 and 2016 were 1 US\$ equals:

#### Period end: March 31, 2017

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

#### Period end: March 31, 2016

	USD/EGP	USD/GBP	USD/MAD
March 31, 2016	8.8576	0.6959	9.6841

#### 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, 2017 and December 31, 2016 the Company's trade and other payables are as follows:

\$000's	Carrying amount	
	March 31 2017	December 31 2016
<b>Current</b>		
Trade payables	572	663
Accruals	1,298	684
Joint venture partners	20,858	1,743
Other payables	1,175	584
<b>Total trade and other payables</b>	<b>23,903</b>	<b>3,674</b>

As a result of the acquisition of Circle Oil plc on January 27, 2017, US\$19.4 million of Trade and other payables were added to SDX's Trade and other payables upon completion of the transaction, and this is the reason for the significant increase in these balances as at March 31, 2017.

As at December 31, 2016, trade payables included US\$0.3 million of NGL and gas transportation and treatment costs associated with the sales of these products recognized during Q4 2016. As this has been paid during Q1 2017, the partial offset increase in the balance to March 31, 2017 reflects the increased size of the Company post-acquisition.

Accruals include amounts for products and services received which have yet to be invoiced. The increase period on period reflects the increased size of the Company post-acquisition.

Joint venture partners comprise partner current accounts of US\$15.4 million for NW Gemsa (2016: US\$1.2 million), US\$0.9 million Block-H Meseda (2016: US\$0.5 million), US\$0.5 million South Disouq (2016: US\$nil) and US\$4.1 million for the Morocco concessions (US\$2016: US\$nil). US\$3.4 million of the Moroccan balance relates to amounts owing to ONHYM. These amounts are currently being withheld until an agreement has been reached relating to the settlement of the US\$4.5 million Receivable owed by ONHYM discussed at Note 5 (a). The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Other payables of US\$1.2 million comprise an estimated liability of US\$0.5 million related to the relinquishment of the Shukheir Marine concession (2016: US\$0.5 million), post-acquisition restructuring costs of US\$0.6 million (2016: US\$nil) and sundry creditors of US\$0.1 million (2016: US\$0.1 million).

#### 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 2017	December 31 2016
Cash and cash equivalents	21,052	4,725
Trade and other receivables	42,281	9,463
<b>Total</b>	<b>63,333</b>	<b>14,188</b>

#### Trade and other receivables:

All of the Company's operations as at March 31, 2017 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 trade receivables balance and any updates to the conclusion over discounting will be monitored over the coming months.

\$000's	Carrying amount	
	March 31 2017	December 31 2016
<b>Current</b>		
Government of Egypt controlled corporations	31,815	7,745
Government of Morocco controlled corporations	4,533	-
Third party gas customers	4,781	-
Joint venture partners	-	578
Other	1,152	1,140
<b>Total trade and other receivables</b>	<b>42,281</b>	<b>9,463</b>

As a result of the acquisition of Circle Oil plc on January 27, 2017, US\$34.5m of Trade and other receivables were added to SDX's Trade and other receivables upon completion of the transaction, and this is the reason for the significant increase in these balances as at March 31, 2017.

US\$31.8 million of current receivables related to oil, gas and NGL sales and production service fees which are due from EGPC (December 31, 2016: US\$7.7 million), a Government of Egypt controlled corporation. Receivables in respect of oil sales and service fees are normally collected in two to three months following production. The Company expects to collect outstanding receivables of US\$29.4 million for NW Gemsa (2016: US\$3.4 million) and US\$2.0 million for Block – H Meseda (2016: US\$2.3 million), in the normal course of operations. The US\$0.4 million of Shukheir Marine oil invoices (2016: US\$2.0 million), which are pledged against the Company's obligations under its South Disouq work program, were collected during Q2 2017 as the South Disouq work programme is now complete.

US\$4.5 million is owed by ONHYM and relates to ONHYM's share of well completion, pipeline construction and production costs outstanding.

US\$4.8 million is owing from third party gas customers in Morocco and is expected to be collected within agreed credit terms.

Subsequent to March 31, 2017, the Company collected US\$3.4 million of trade receivables from those that were outstanding at March 31, 2017; US\$0.2 million for NW Gemsa representing October 2016 crude oil sales invoices, US\$1.2 million for Meseda representing January and February 2017 production service fees, US\$0.4 million of the rolling South Disouq production guarantee referred to above and US\$1.6 million from third party gas customers in Morocco.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. At March 31, 2017, no amounts were receivable from joint venture partners (2016: South Disouq - US\$0.6 million).

The other receivables of US\$1.2 million consist of US\$0.4 million related to prepayments, US\$0.2 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US\$0.6 million for other items.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Liquidity and capital resources (continued)

#### Financial instruments (continued)

##### Credit risk (continued)

As at March 31, 2017 and December 31, 2016, the Company's trade and other receivables are aged as follows:

\$000's	Carrying amount	
	March 31 2017	December 31 2016
<b>Current</b>		
Current (less than 90 days)	22,837	6,863
Past due (more than 90 days)	19,444	2,600
<b>Total trade and other receivables</b>	<b>42,281</b>	<b>9,463</b>

The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have increased by US\$16.8 million when compared to December 31, 2016. This increase is primarily due to the acquired Circle NW Gemsa and Morocco receivables, which had a significantly more aged profile than those previously managed by the Company, partly offset by the collection of US\$1.6 million of the Shukheir Marine receivables as explained above.

#### 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 2017	December 31 2016
Equity	102,964	37,264
Working capital <sup>(1)</sup>	(40,039)	(11,823)
<b>Total capital</b>	<b>62,925</b>	<b>25,441</b>

(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 makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its interests in its existing 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, 2016.

#### 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, 2017.

Further information on the accounting policies and estimates can be found in the notes to the unaudited Interim Consolidated Financial Statements and MD&A for the three months ended March 31, 2017.

#### Future changes in accounting policies

There are no updates to future changes in accounting policies in the first three months of 2017.

## 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.

### 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.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Business risk assessment (continued)

#### 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.

#### 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, 2017. 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, 2017.

# Management's Discussion & Analysis

## for the three months ended March 31, 2017

(prepared in US\$)

### Summary of quarterly results

The fiscal and operational quarterly results shown below include full quarterly information for SDX Energy Inc., formerly Sea Dragon Energy Inc. and Madison Petrogas Ltd prior to the business combination (pre-combination), effective October 1, 2015. The quarterly results for Q1 2017, Q4, Q3, Q2 and Q1, 2016 and Q4, 2015 represent the quarters for the newly combined group, SDX Energy Inc. post-combination.

SDX Energy Inc., formerly Sea Dragon Energy Inc. produces and sells via its concession agreement, oil, gas and NGL. Madison has a production service agreement and obtains a per barrel service fee.

Fiscal year	2017		2016			2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Financial \$000's</b>								
<b>Cash, beginning of period</b>								
SDX Energy Inc. post combination	4,725	4,961	6,949	8,671	8,170	12,480	-	-
Sea Dragon Energy Inc. - pre combination							494	3,105
Madison Petrogas Ltd - pre combination							12,463	19,056
<b>Cash, end of period</b>								
SDX Energy Inc. post combination	21,052	4,725	4,961	6,949	8,671	8,170	-	-
Sea Dragon Energy Inc. - pre combination							490	494
Madison Petrogas Ltd - pre combination							11,990	12,463
<b>Working capital</b>								
SDX Energy Inc. post combination	40,039	11,823	9,593	8,232	5,414	11,552	-	-
Sea Dragon Energy Inc. - pre combination							3,911	2,838
Madison Petrogas Ltd - pre combination							11,943	13,634
<b>Income/(loss) and comprehensive income/(loss)</b>								
SDX Energy Inc. post combination	26,947	(2,058)	140	(25,164)	(883)	8,542	-	-
Sea Dragon Energy Inc. - pre combination							(1,755)	230
Madison Petrogas Ltd - pre combination							(1,029)	1,110
<b>Net income/(loss) per share - basic</b>								
SDX Energy Inc. post combination	0.172	(0.030)	0.002	(0.455)	(0.023)	0.230	-	-
Sea Dragon Energy Inc. - pre combination							(0.005)	0.001
Madison Petrogas Ltd - pre combination							(0.013)	0.019
<b>Capital expenditures</b>								
SDX Energy Inc. post combination	811	857	188	6,475	5,819	2,404	-	-
Sea Dragon Energy Inc. - pre combination							781	270
Madison Petrogas Ltd - pre combination							797	1,605
<b>Total assets</b>								
SDX Energy Inc. post combination	132,794	41,617	43,901	47,231	64,907	60,016	-	-
Sea Dragon Energy Inc. - pre combination							28,258	29,145
Madison Petrogas Ltd - pre combination							42,912	44,333
<b>Shareholders' equity</b>								
SDX Energy Inc. post combination	102,964	37,264	39,161	38,560	54,457	55,246	-	-
Sea Dragon Energy Inc. - pre combination							23,925	25,644
Madison Petrogas Ltd - pre combination							40,769	41,660
<b>Common shares outstanding (000's)</b>								
SDX Energy Inc. post combination	186,900	79,844	79,844	75,934	37,642	37,642	-	-
Sea Dragon Energy Inc. - pre combination							376,459	376,459
Madison Petrogas Ltd - pre combination							56,348	56,348
<b>Warrants outstanding (000's)</b>								
SDX Energy Inc. post combination	-	-	-	611	611	611	-	-
Madison Petrogas Ltd - pre combination							1,280	1,280

## Summary of quarterly results (continued)

Fiscal year Operational	2017			2016			2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Oil sales (bbl/d)	1,493	468	510	554	606	652	674	719	
Gas sales (mcf/d)	812	3,273	-	-	-	-	-	-	
NGL sales (bbl/d)	40	445	-	-	-	-	-	-	
Production service fee (bbl/d)	646	679	704	616	646	704	723	783	
Total boe/d	2,991	4,865	1,214	1,170	1,252	1,356	1,397	1,502	
Oil sales volumes (bbls)	134,395	43,087	46,935	50,407	55,159	59,988	62,031	65,434	
Gas sales volumes (mcf)	73,037	301,137	-	-	-	-	-	-	
NGL sales volumes (bbls)	3,583	40,897	-	-	-	-	-	-	
Production service fee volumes (bbls)	58,126	62,504	64,792	56,026	58,823	64,751	66,517	71,216	
Total sales and service fee volumes (boe)	269,141	447,625	111,727	106,433	113,982	124,739	128,548	136,650	
Brent oil price (US\$/bbl)	53.64	49.23	45.78	45.54	33.73	43.56	50.26	61.72	
West Gharib oil price (US\$/bbl)	41.93	38.07	34.86	30.38	25.65	34.35	40.64	49.41	
Realized oil price (US\$/bbl)	48.73	44.56	40.84	39.90	28.69	38.70	45.91	57.44	
Realized service fee (US\$/bbl)	34.34	31.12	28.32	24.51	20.49	27.90	33.31	40.72	
Realised oil sales price and service fees	44.38	36.60	33.58	31.80	24.46	33.09	39.39	48.73	
Realized gas price (US\$/mcf)	5.50	1.22	-	-	-	-	-	-	
Realized NGL price (US\$/bbl)	47.17	57.73	-	-	-	-	-	-	
Net realized price - all products (US\$/boe)	41.33	18.85	33.58	31.80	24.46	33.09	39.39	48.73	
Royalties (US\$/boe)	11.10	6.89	7.37	8.11	5.96	5.50	8.23	14.46	
Sea Dragon Energy Inc. - pre combination							17.06	30.19	
Operating costs (US\$/boe)	7.61	3.91	11.11	12.12	8.77	19.90	11.41	4.89	
Sea Dragon Energy Inc. - pre combination							10.49	(5.13)	
Madison Petrogas Ltd - pre combination							12.27	14.09	
Netback - (US\$/boe)	22.62	8.05	15.11	11.57	9.73	7.69	19.75	29.38	
Sea Dragon Energy Inc. - pre combination						18.36	32.38	20.90	
Madison Petrogas Ltd - pre combination						21.04	26.63	28.61	