Management's Discussion & Analysis

2017 Annual Report

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US$)

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 23, 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 and twelve months ended December 31, 2017. This MD&A should be read in conjunction with the accompanying 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 4 to the 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.

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 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 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 Consolidated Financial Statements the Company must conform with IFRS 3 – Business Combinations. This means that in the Consolidated Financial Statements for the year ended December 31, 2017, the 2017 figures in the Consolidated Statement of Comprehensive Income relate to the enlarged entity, whereas the 2016 comparatives contain twelve 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 to operating income in note 21 to the Consolidated Financial Statements.

Management's Discussion & Analysis

for the three and twelve months ended December 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 seven 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 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. 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 4 to the 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.);

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.

2018 Work program

The Company's capital expenditure program for 2018 is expected to be approximately US$44.6 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$0.9 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 boep/d which is broadly in line with 2017 production levels. .

In Meseda, up to c.US$3.0 million 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 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$6.6 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 in the second half 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 cUS$8.25 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$13 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 cUS$6.5 million.

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.

		Three months ended December 31		Twelve months ended December 31	
$000's unless stated	Prior quarter (1)	**2017**	2016	**2017**	2016
NW Gemsa oil sales revenue	8,411	**9,087**	1,920	**31,641**	7,432
Royalties	(3,610)	**(3,900)**	(824)	**(13,580)**	(3,190)
Net oil revenue	4,801	**5,187**	1,096	**18,061**	4,242
Block H Meseda production service fee revenues	1,845	**2,276**	1,945	**8,045**	6,359
Morocco gas sales revenue	3,214	**3,646**	-	**12,425**	-
Net other products revenue	264	**(105)**	2,313	**635**	2,313
Total net revenue	10,124	**11,004**	5,354	**39,166**	12,914
Operating costs	(2,672)	**(2,526)**	(1,752)	**(10,254)**	(5,282)
Netback: NW Gemsa oil (2)	3,000	**3,648**	82	**11,563**	2,046
Netback: Block-H Meseda	1,233	**1,619**	1,207	**5,377**	3,273
Netback: Morocco gas	2,955	**3,316**	-	**11,337**	-
Netback: Other products (2)	264	**(105)**	2,313	**635**	2,313
Netback (pre-tax)	7,452	**8,478**	3,602	**28,912**	7,632
NW Gemsa oil sales (bbl/d)	1,893	**1,710**	468	**1,733**	534
Block-H Meseda production service fee (bbl/d)	551	**561**	679	**595**	662
Morocco gas sales (boe/d)	611	**680**	-	**596**	-
Other products sales (boe/d)	384	**310**	3,166	**313**	796
Total sales volumes (boe/d)	3,439	**3,261**	4,313	**3,237**	1,992
NW Gemsa oil sales volumes (bbls)	174,202	**157,302**	43,087	**632,592**	195,588
Block-H Meseda production service fee volumes (bbls)	50,674	**51,599**	62,504	**217,135**	242,146
Morocco gas sales volumes (boe)	56,219	**62,543**	-	**217,655**	-
Other products sales volumes (boe)	35,404	**28,550**	291,261	**114,200**	291,261
Total sales volumes (boe)	316,499	**299,994**	396,852	**1,181,582**	728,995
Brent oil price (US$/bbl)	$52.07	**$61.52**	$49.23	**$54.25**	$41.70
West Gharib oil price ($US/bbl)	$44.48	**$53.59**	$34.86	**$45.37**	$32.43
Realized NW Gemsa oil price (US$/bbl)	$48.28	**$57.77**	$44.56	**$50.02**	$38.00
Realized Block-H Meseda service fee (US$/bbl)	$36.41	**$44.11**	$31.12	**$37.05**	$26.26
Realized oil sales price and service fees (US$/bbl)	$45.61	**$54.39**	$36.60	**$46.70**	$31.51
Realized Morocco gas price (US$/mcf)	$9.53	**$9.72**	-	**$9.51**	-
Total royalties (US$/boe)	$11.94	**$9.89**	$6.33	**$11.28**	$7.47
Operating costs (US$/boe)	$8.44	**$8.42**	$4.41	**$8.68**	$7.25
Netback (US$/boe)	$23.54	**$28.26**	$9.08	**$24.47**	$10.47
Capital expenditures	3,423	**15,302**	856	**21,040**	13,339

(1) Three months ended September 30, 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.

Operational and financial highlights (continued)

Net revenue overview

The overall US$26.3 million increase in Net revenues in the twelve months ended December 31, 2017 compared to the prior period in 2016 can be explained as follows:

- US$27.1 million of the US$26.3 million increase relates to revenues of the acquired Circle Oil assets recognized from January 27, 2017 to December 31, 2017 (US$14.7 million NW Gemsa (acquired 40% share); US$12.4 million Morocco);
- A US$1.7 million increase in SDX's unchanged working interest in Block-H Meseda; partly offset by
- A decrease of US$2.5 million at SDX's existing 10% share of NW Gemsa.

This movement is summarized below:

$000's	
Total net revenue nine months ended December 31, 2017	39,166
Total net revenue nine months ended December 31, 2016	12,914
Increase period on period	**26,252**

Attributable to:	
Decrease in SDX's 10% share of NW Gemsa	(2,516)
Increase in SDX's share of Block-H Meseda	1,686
Acquired 40% share of NW Gemsa	14,657
Acquired Moroccan gas business	12,425
Total increase period on period	**26,252**

Oil sales and production service fee revenues

		Three months ended December 31		Twelve months ended December 31	
$000's	Prior quarter	**2017**	2016	**2017**	2016
Oil sales revenue	8,411	**9,087**	1,920	**31,641**	7,432
Production service fee revenues	1,845	**2,276**	1,945	**8,045**	6,359
Total oil sales and production service fees revenue	10,256	**11,363**	3,865	**39,686**	13,791

Oil sales revenues for the three and twelve months ended December 31, 2017 of US$9.1 million and US$31.6 million include US$7.8 million and US$24.8 million respectively 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 and twelve months ended December 31, 2017 averaged 1,710 bbl/d and 1,733 bbl/d compared to 468 bbl/d and 534 bbl/d for the comparative periods of the prior year. Of these, 1,368 bbl/d and 1,358 bbl/d are due to the additional 40% share in the concession that was acquired from Circle Oil plc.

Total sales volumes increased by 437,004 barrels, 223%, to 632,592 barrels in the twelve months ended December 31, 2017 compared to 195,588 barrels in the comparative period of 2016. This net increase of 437,004 barrels can be explained by the 495,558 barrels from the additional 40% share of the Concession that was acquired from Circle Oil and a like-for-like (i.e. 10% share) decrease of 58,554 barrels, 30%, due to natural reservoir decline. 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, sales volumes of 685,169 barrels (1,877 bbl/d) for the twelve months ended December 31, 2017 compare to sales volumes of 977,940 (2,671 bbl/d) for the same period in 2016, a 30% reduction 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 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 and twelve months ended December 31, 2017 the Brent price ranged from a high of US$66.80 per barrel on December 28, 2017 to a low of US$43.98 per barrel on June 20, 2017. The current oil price environment is due to the rebalancing of 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 large 'consuming economies' such as China. At this time, the Company does not hedge any of its production.

For the three and twelve months ended December 31, 2017, oil sales made by the Company achieved an average realized price per barrel of oil of US$57.77 and US$50.02 respectively compared to the average Brent Oil price ("Brent") for the periods of US$61.52 and $54.25; a discount of US$3.75, 6% per barrel and a discount of US$4.23, 8% per barrel respectively. 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 and twelve months ended December 31, 2016, the Company achieved average realized prices of US$44.56 and US$38.00 respectively.

		Three months ended December 31		Twelve months ended December 31	
$000's	Prior quarter	**2017**	2016	**2017**	2016
Oil sales revenue ($'000s)	8,411	**9,087**	1,920	**31,641**	7,432
Per bbl ($/bbl)	48.28	**57.77**	44.56	**50.02**	38.00

Oil sales revenue variance from prior year

For the twelve months ended December 31, 2017 (compared to the twelve months ending December 31, 2016) oil sales revenue increased due to an increase in sales price of US$7.6 million, 102%, and an increase in sales volume of US$16.6 million, 223%, due to the acquired additional 40% of the concession, partly offset by natural reservoir decline.

$000's	
Twelve months ended December 31, 2016	7,432
Price variance	7,603
Production variance	16,606
Twelve months ended December 31, 2017	**31,641**

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

$000's	
Twelve months ended December 31, 2016	37,160
Price variance	8,235
Production variance	(11,125)
Twelve months ended December 31, 2017	**34,270**

On this basis, a 30% reduction in sales volumes, driven by natural reservoir decline, is partly offset by improved pricing (22%), resulting in an overall 8% reduction in oil sales revenue.

Oil sales revenue variance from prior quarter

For the three months ended December 31, 2017 (compared to the three months ended September 30, 2017) oil sales revenue increased by US$0.7 million, 8%, due to an increase in sales pricing of US$1.5 million, 18%, partly offset by reduced sales volume (US$0.8 million, 10%) due to natural reservoir decline partly mitigated by well work overs.

$000's	
Three months ended September 30, 2017	8,411
Price variance	1,492
Production variance	(816)
Three months ended December 31, 2017	**9,087**

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 10,905 barrels, 17%, to 51,599 barrels compared to the three months ended December 31, 2016. Barrels produced per day decreased period on period by 118bbl/d to 561bbl/d, as during the current quarter several wells were taken off production due to work-over program requirements. For the twelve months ended December 31, 2017 production service fee volumes decreased by 25,011 barrels compared to the prior year, again due to the impact of work-overs.

Production service fee pricing

For the three and twelve months ended December 31, 2017 the Company received an average service fee per barrel of oil of US$44.11 and $37.05 respectively, compared to the average West Gharib prices for the period of US$53.59; a discount of US$9.48, 18%, per barrel and $45.37; a discount of US$8.32, 18%, per barrel. The Company receives a discount to West Gharib due to the quality of the oil produced. For the three and twelve months ended December 31, 2016, the Company received average service fees per barrel of oil of US$31.12 and US$26.26 respectively.

		Three months ended December 31		Twelve months ended December 31	
$000's unless stated	Prior quarter	**2017**	2016	**2017**	2016
Production service fee revenues ($'000s)	1,845	**2,276**	1,945	**8,045**	6,359
Per bbl ($/bbl)	36.41	**44.11**	31.12	**37.05**	26.26

Production service fee variance from prior year

For the twelve months ended December 31, 2017 (compared to the twelve months ended December 31, 2016) the increase in production service fee revenue of US$1.7 million, 27%, to US$8.0 million is due to an increase in realized sales price, US$2.3 million, 37%, partially offset by lower production, US$0.6 million, 10%.

$000's	
Twelve months ended December 31, 2016	6,359
Price variance	2,343
Production variance	(657)
Twelve months ended December 31, 2017	**8,045**

Production service fee variance from prior quarter

For the three months ended December 31, 2017 (compared to the three months ended September 30, 2017) the increase in production service fee revenue of US$0.4 million, 23%, is predominantly due to an increase in realized sales price (US$0.4 million, 22%).

$000's	
Three months ended September 30, 2017	1,845
Price variance	397
Production variance	34
Three months ended December 31, 2017	**2,276**

Morocco gas sales revenue

		Three months ended December 31		Twelve months ended December 31	
$000's	Prior quarter	**2017**	2016	**2017**	2016
Morocco - Sebou	3,214	**3,646**	-	**12,425**	-
Per mcf ($/mcf)	9.53	**9.72**	-	**9.51**	-

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 December 31, 2017, the realized natural gas price was $9.51/mcf on sales volumes net to SDX of 3.91mcf/d.

On a pro forma basis for the twelve months ended December 31, 2017, the natural gas sales price was $9.46/mcf on net sales volumes of 3.85mcf/d, compared to $8.58/mcf on net sales volumes of 3.87mcf/d for the twelve months ended December 31, 2016. The period on period variance is due to fluctuations in customer demand, and a pipeline outage in September 2016 which impacted sales to one customer.

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 and twelve months ended December 31, 2017. 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 actuals were lower. The adjustment has been 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).

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:

		Three months ended December 31		Twelve months ended December 31	
per unit amounts	Prior quarter	**2017**	2016	**2017**	2016
NW Gemsa	3,610	**3,900**	824	**13,580**	3,190
Total royalties (US$/boe) by concession	20.72	**24.79**	19.12	**21.47**	16.31

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 December 31, 2017 and December 31, 2016):

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)	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.

Operational and financial highlights (continued)

Direct operating costs

The direct operating costs per concession were:

$000's	Prior quarter	Three months ended December 31 2017	Three months ended December 31 2016	Twelve months ended December 31 2017	Twelve months ended December 31 2016
NW Gemsa	1,801	**1,539**	1,014	**6,498**	2,170
Block-H Meseda	612	**657**	737	**2,668**	3,086
Morocco - Sebou	259	**330**	-	**1,088**	-
Other	-	**-**	1	**-**	26
Total direct operating costs	2,672	**2,526**	1,752	**10,254**	5,282

The direct operating costs per boe per concession were:

per unit amounts	Prior quarter	Three months ended December 31 2017	Three months ended December 31 2016	Twelve months ended December 31 2017	Twelve months ended December 31 2016
NW Gemsa	8.48	**8.28**	3.03	**8.70**	4.46
Block-H Meseda	10.79	**12.74**	11.79	**12.29**	11.79
Morocco - Sebou	4.38	**5.28**	-	**5.00**	-
Total direct operating costs (US$/boe) per concession	8.44	**8.42**	4.41	**8.68**	7.25

Direct operating costs for the three and twelve months ended December 31, 2017 were US$2.5 million and US$10.3 million compared to US$1.8 million and US$5.3 million for the comparative periods of the prior year. Prior quarter direct operating costs are US$0.2 million higher at US$2.7 million compared to US$2.5 million for the three months to December 31, 2017.

NW Gemsa

NW Gemsa direct operating costs for the three and twelve months to December 31, 2017 were US$1.5 million and US$6.5 million, US$0.5 million and US$4.3 million higher respectively than the comparative periods of the prior year. This variance is predominantly attributable to the additional 40% interest in the concession acquired during the current year, partly offset by headcount reductions in the operation. Direct operating costs are $US0.3 million lower than the prior quarter.

Block H-Meseda

Direct operating costs for the twelve months to December 31, 2017 for Block H-Meseda were US$0.4 million lower than the comparative period of the prior year and were US$0.1 million higher than the prior quarter, in both instances due to production variances.

Morocco - Sebou

Direct operating costs for the period January 27, 2017 to December 31, 2017, for the Sebou concession, Morocco, were US$0.83/mcf, or US$5.00/bbl.

On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2016, direct operating costs for the twelve months ended December 31, 2017 were US$0.87/mcf, versus US$0.45/mcf for the corresponding period in 2016. The primary driver for the increase period on period is production bonuses (US$0.2 million) that have been incurred in 2017 but were not recognized in 2016.

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

For the twelve months ended December 31, 2017, depletion, depreciation and amortization ("DD&A") was US$17.8 million compared to US$3.3 million in the comparative period.

$000's except per unit amounts	Twelve months ended December 31 2017	Twelve months ended December 31 2016
Depletion, depreciation and amortization	**17,824**	3,266
Per bbl	**15.08**	4.48

The DD&A per concession was:

$000's	Twelve months ended December 31 2017	Twelve months ended December 31 2016
NW Gemsa	**6,758**	2,216
Block-H Meseda	**1,094**	1,010
Morocco - Sebou	**9,885**	-
Other	**87**	40
Total DD&A	**17,824**	3,266

General and administrative expenses

$000's	Twelve months ended December 31 2017	2016
Wages and employee costs	**6,513**	2,532
Consultants - inc. PR/IR	**699**	479
Legal fees	**332**	237
Audit, tax and accounting services	**641**	246
Public company fees	**365**	332
Travel	**382**	166
Office expenses	**1,092**	668
IT expenses	**303**	322
Service recharges	**(3,907)**	(1,303)
Ongoing general and administrative expenses	**6,420**	3,679
Transaction costs	**2,373**	-
Total net G&A	**8,793**	3,679

General and administrative ("G&A") costs for the twelve months ended December 31, 2017 were US$8.8 million compared to US$3.7 million for the comparative period of the prior year; an increase of US$5.1 million, or 138%.

The increase of US$5.1 million is primarily due to the following:

- higher wages and employee costs (US$4.0 million) due to payments and accruals made under the SDX employee bonus scheme of US$2.0 million, including tax, which reflects the impact of both the 2017 and 2016 bonuses (which were determined and awarded in 2017), the Egyptian severance costs (US$0.5 million), increased technical personnel headcount in London and Cairo (US$0.8 million), higher Egyptian salary taxes (US$0.1 million) and staff costs at the acquired Rabat office (US$0.6 million);
- higher consultancy fees (US$0.2 million) due to increased levels of corporate activity;
- higher legal fees (US$0.1 million), higher audit (US$0.1 million) and tax fees (US$0.3 million) and higher travel costs (US$0.2 million) due to the increased size of the group;
- higher office expenses (US$0.4 million) due to the acquired Rabat office;
- transaction costs from the Circle acquisition (US$2.4 million) associated with investment banking fees, legal and financial due diligence fees, staff redundancy and public company filing requirements; and
- greater service recharges ((US$2.6 million)) relating to the increase in cross charging of technical and administrative time spent by the Company on its operating assets, in particular the drilling campaign in Morocco and drilling/development activity at South Disouq and 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	Twelve months ended December 31 2017	2016
NW Gemsa	**3,551**	1,272
Block-H Meseda	**1,017**	227
Morocco - Sebou	**-**	-
Other	**(27)**	-
Total current taxes	**4,541**	1,499

Current taxes for the twelve months ended December 31, 2017 were US$4.5 million compared to US$1.5 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 due to the increase in sales realizations (pricing), as well as production variances.

Operational and financial highlights (continued)

Net earnings

As per the Consolidated Financial Statements for the twelve months ended December 31, 2017, the Company recorded a Total Comprehensive Income of US$28.3 million, compared to a Total Comprehensive Loss of US$28.0 million for the twelve months ended December 31, 2016; a difference of US$56.3 million.

The main components of this difference are:

- an increase in net revenues of US$26.3 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 US$29.6 million gain on acquisition of the Circle Oil assets;
- a US$24.6 million reduction in exploration and evaluation expenditure. In the twelve months ended December 31, 2016 the Company wrote off its capitalized expenditure on Bakassi West in Cameroon and withdrew from the Concession;
- the absence of a US$4.3 million impairment expense recorded in respect of NW Gemsa in the twelve months ended December 31, 2016, offset by;
- higher stock based compensation of US$0.6 million;
- greater operating expenses (US$(5.0) million) and DD&A charge (US$(14.5) million) incurred by the enlarged business;
- higher G&A expenses (US$(5.1) million) due to transaction costs, staff bonuses and the increased size of the Group; and
- higher taxation expense (US$(3.0) 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 9 and 10 to the Consolidated Financial Statements for the period ended December 31, 2017, which include discussion therein.

		Three months ended December 31		Twelve months ended December 31	
$000's	Prior quarter	**2017**	2016	**2017**	2016
Property, plant and equipment expenditures ("PP&E")	2,524	**12,697**	136	**15,975**	1,113
Exploration and evaluation expenditures ("E&E")	884	**2,237**	52	**4,608**	11,354
Office furniture and fixtures	15	**368**	-	**457**	15
Total capital expenditures	3,423	**15,302**	188	**21,040**	12,482

Decommissioning liability

	Carrying amount	
$000's	**December 31 2017**	December 31 2016
Decommissioning liability, beginning of period	**-**	-
Changes in estimate	**625**	-
Liabilities acquired through business combination	**3,968**	-
Payments for decommissioning	**(137)**	
Accretion	**86**	-
Decommissioning liability, end of period	**4,542**	-
Of which:		
Current	**1,063**	-
Non-current	**3,479**	-

For discussion of the Company's decommissioning liability, see note 14 to the Consolidated Financial Statements for the year ended December 31, 2017.

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 December 31 2017**	Twelve months ended December 31 2017
High (CDN)	$0.95	**$0.99**	$1.16
Low (CDN)	$0.70	**$0.80**	$0.50
Average volume	101,245	**105,327**	87,030

The following table summarizes the outstanding common shares and options as at March 23, 2018, December 31, 2017 and December 31, 2016.

Outstanding as at:	March 23 2018	**December 31 2017**	December 31 2016
Common shares	204,493,040	**204,493,040**	79,843,902
Options (stock option plan)	2,851,667	**2,851,667**	2,445,000
Options (long term incentive plan)	7,214,506	**3,449,461**	-

The increase in Common shares as at December 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 4 to the Consolidated Financial Statements (107,056k common shares), as well as an additional fund raising completed in September (17,559k common shares).

During the period, 640,000 stock options were issued to four non-executive Directors of the Company, 100,000 options lapsed and 100,000 options were cancelled due to employees leaving the Company, 33,332 options were exercised.

The following table summarizes the outstanding stock option plan options as at December 31, 2017:

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

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 17 to the Consolidated Financial Statements.

Liquidity and capital resources (continued)

Capital resources

As at December 31, 2017 the Company had working capital of approximately US$46.7 million. The Company expects to fund its 2018 capital program through funds generated from operations and cash on hand.

As at December 31, 2017, the Company had cash and cash equivalents of US$25.8 million compared to US$4.7 million as at December 31, 2016.

During the twelve months ended December 31, 2017 the Company had a net cash inflow US$21.1 million respectively (including the effects of foreign exchange on cash and cash equivalents). For further detail, please see sources and uses table below.

As at December 31, 2017, the Company had US$37.7 million in trade and other receivables compared to US$9.5 million as at December 31, 2016. Approximately US$25.6 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$1.6 million related to the joint venture partner account for the South Disouq concession.

US$3.6 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$3.2 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$3.7 million consist of US$2.9 million related to prepayments predominantly associated with the Morocco and South Disouq drilling campaign, US$0.3 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US$0.5 million for other items.

Subsequent to December 31, 2017, the Company collected US$12.9 million of trade receivables from those that were outstanding at December 31, 2017; US$7.9 million for NW Gemsa, US$2.8 million for Block-H Meseda and US$2.2 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	**December 31 2017**	December 31 2016
Current assets		
Cash and cash equivalents	**25,844**	4,725
Trade and other receivables	**37,656**	9,463
Inventory	**5,157**	1,698
Total current assets	**68,657**	15,886
Current liabilities		
Trade and other payables	**19,459**	3,674
Deferred income	**495**	-
Decommissioning liability	**1,063**	-
Current income taxes	**915**	389
Total current liabilities	**21,932**	4,063
Working capital	**46,725**	11,823

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

	Twelve months ended December 31	
$000's	**2017**	2016
Sources		
Operating cash flow before working capital movements	**16,568**	2,264
Issuance of common shares	**48,510**	10,127
Cash balance acquired during the period	**3,108**	-
Dividends received	**760**	825
Changes in non-cash working capital	**5,412**	-
Effect of foreign exchange on cash and cash equivalents	**141**	-
Total sources	**74,499**	13,216
Uses		
Property, plant and equipment expenditures	**(21,132)**	(161)
Exploration and evaluation expenditures	**(3,785)**	(11,729)
Acquisition of subsidiaries	**(28,056)**	-
Finance costs paid	**(43)**	(96)
Income taxes paid	**(364)**	(766)
Changes in non-cash working capital	**-**	(3,440)
Effect of foreign exchange on cash and cash equivalents	**-**	(469)
Total uses	**(53,380)**	(16,661)
Increase/(decrease) in cash	**21,119**	(3,445)
Cash and cash equivalents at beginning of period	**4,725**	8,170
Cash and cash equivalents at end of period	**25,844**	4,725

The Company's operating cash flow before working capital movements for the twelve months ended December 31, 2017 compared to the prior period ended December 31, 2016 has increased by US$14.3 million primarily due to:

i) an increase of US$26.3 million in net revenues as a result of the acquisition of the Egyptian and Moroccan assets of Circle Oil (US$27.1 million) in 2017, improved pricing at Block-H Meseda (US$1.7 million), and improved oil pricing offset by lower production attributable to the Company's existing share of NW Gemsa ((US$2.5 million));
ii) an increase in operating costs of US$5.0 million as a result of the Circle Oil acquisition, partly offset by production declines; and
iii) an increase in general and administrative costs in 2017 (US$5.1 million) due to Circle Oil transaction costs, the costs of the expanded business and staff bonuses.

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

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	GBP	MAD	Other
As at December 31, 2017			**US$ Equivalent**			
Cash and cash equivalents	25,844	9,673	1,314	2,840	12,011	6
Trade and other receivables[2]	34,781	25,742	75	145	8,783	36
Trade and other payables	(19,459)	(12,606)	(810)	(315)	(2,945)	(2,783)
Current income taxes	(915)	-	(915)	-	-	-
Balance sheet exposure	**40,215**	**22,809**	**(336)**	**2,670**	**17,849**	**(2,741)**

(1) FS denotes Financial Statements

(2) Excludes prepayments

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

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

Average: October 1, 2016 to December 30, 2016			
	USD/EGP	USD/GBP	USD/MAD
Period average	14.3634	0.8044	9.9607

The average exchange rates during the twelve months ended December 31, 2017 and 2016 were 1 US$ equals:

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

Average: January 1, 2016 to December 31, 2016			
	USD/EGP	USD/GBP	USD/MAD
Period average	10.0211	0.7405	9.8042

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

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

Period end: December 31, 2016			
	USD/EGP	USD/GBP	USD/MAD
December 31, 2016	18.1274	0.8113	10.1132

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

	Carrying amount	
	December 31	December 31
$000's	**2017**	2016
Trade payables	**2,636**	663
Accruals	**9,536**	684
Joint venture partners	**5,686**	1,743
Other payables	**1,601**	584
Total trade and other payables	**19,459**	3,674

For discussion of the Company's trade and other payables, see note 12 to the Consolidated Financial Statements for the year ended December 31, 2017.

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:

	Carrying amount	
	December 31	December 31
$000's	**2017**	2016
Cash and cash equivalents	**25,844**	4,725
Trade and other receivables[1]	**34,781**	8,809
Total	**60,625**	13,534

(1) Excludes prepayments

Trade and other receivables:

All of the Company's operations as at December 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.

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

	Carrying amount	
	December 31	December 31
$000's	**2017**	2016
Government of Egypt controlled corporations	**25,582**	7,745
Government of Morocco controlled corporations	**3,597**	-
Third party gas customers	**3,175**	-
Joint venture partners	**1,586**	578
Other[1]	**841**	486
Total trade and other receivables	**34,781**	8,809

(1) Excludes prepayments

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

	Carrying amount	
	December 31	December 31
$000's	**2017**	2016
Current (less than 90 days)	**21,261**	6,209
Past due (more than 90 days)	**13,520**	2,600
Total trade and other receivables	**34,781**	8,809

For discussion of the Company's trade and other receivables, see note 6b to the Consolidated Financial Statements for the period ended December 31, 2017.

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:

	Carrying amount	
$000's	**December 31 2017**	December 31 2016
Equity	**114,619**	37,264
Working capital (1)	**(46,725)**	(11,823)
Total capital	**67,894**	25,441

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

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, 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 Consolidated Financial Statements and MD&A for the three and twelve months ended December 31, 2017.

Future changes in accounting policies

There are no updates to future changes in accounting policies during 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.

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.

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 December 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 December 31, 2017.

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US$)

Summary of quarterly results

Fiscal year	2017				2016			
Financial $000's	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q4
Cash, beginning of period	**30,469**	27,627	21,052	4,725	4,961	6,949	8,671	8,170
Cash, end of period	**25,844**	30,469	27,627	21,052	4,725	4,961	6,949	8,671
Working capital	**46,725**	58,397	43,048	40,039	11,823	9,593	8,232	5,414
Comprehensive income/(loss)	**(2,621)**	4,408	(427)	26,947	(2,058)	140	(25,164)	(883)
Net income/(loss) per share - basic	**(0.010)**	0.022	(0.005)	0.172	(0.030)	0.002	(0.455)	(0.02)
Capital expenditures	**15,328**	3,423	1,504	811	857	188	6,475	5,819
Total assets	**141,057**	138,898	132,766	132,794	41,617	43,901	47,231	64,907
Shareholders' equity	**114,619**	116,981	102,559	102,964	37,264	39,161	38,560	54,457
Common shares outstanding (000's)	**204,493**	204,459	186,900	186,900	79,844	79,844	75,934	37,642

Fiscal year	2017				2016			
Operational	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q4
NW Gemsa oil sales (bbl/d)	**1,710**	1,893	1,832	1,493	468	510	554	606
Block H Meseda production service fee (bbl/d)	**561**	551	623	646	679	704	616	646
Morocco gas sales (boe/d)	**680**	611	651	441	-	-	-	-
Other products sales (bbe/d)	**310**	384	419	286	3,166	-	-	-
Total boe/d	**3,261**	3,439	3,525	2,866	4,313	1,214	1,170	1,252
NW Gemsa oil sales volumes (bbls)	**157,302**	174,202	166,693	134,395	43,087	46,935	50,407	55,159
Block H Meseda production service fee volumes (bbls)	**51,599**	50,674	56,736	58,126	62,504	64,792	56,026	58,823
Morocco gas sales volumes (boe)	**62,543**	56,219	59,246	39,646		-	-	-
Other products sales volumes (boe)	**28,550**	35,404	38,143	25,832	291,261	-	-	-
Total sales and service fee volumes (boe)	**299,994**	316,499	320,818	257,999	396,852	111,727	106,433	113,982
Brent oil price (US$/bbl)	**61.52**	52.07	49.68	53.64	49.23	45.78	45.54	33.73
West Gharib oil price (US$/bbl)	**53.59**	44.48	41.50	41.93	38.07	34.86	30.38	25.65
Realized oil price (US$/bbl)	**57.77**	48.28	45.56	48.73	44.56	40.84	39.90	28.69
Realized service fee (US$/bbl)	**44.11**	36.41	33.98	34.34	31.12	28.32	24.51	20.49
Realised oil sales price and service fees	**54.39**	45.61	42.62	44.38	36.60	33.58	31.80	24.46
Realized Morocco gas price (US$/mcf)	**9.72**	9.53	9.44	9.29	-	-	-	-
Royalties (US$/boe)	**9.89**	11.94	10.71	11.37	6.33	7.37	8.11	5.96
Operating costs (US$/boe)	**8.42**	8.44	9.38	7.94	4.41	11.11	12.12	8.77
Netback - (US$/boe)	**28.26**	23.54	21.48	23.60	9.08	15.10	11.56	9.73