



# Management's Discussion & Analysis

## 2018 Annual Report

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Basis of presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 22, 2019 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 12 months ended December 31, 2018. This MD&A should be read in conjunction with the accompanying Consolidated Financial Statements for the year ended December 31, 2018.

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 (6,000 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, using 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. To provide the reader with a better understanding of the enlarged business, this MD&A contains certain explanations which analyze the performance of the Company as if the acquisition had taken place on January 1, 2017, using pro forma figures. These pro forma figures are clearly identified.

Certain information contained in this report 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 on 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.

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### 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 the 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 three and 12 months ended December 31, 2018, the 2018 figures in the Consolidated Statement of Comprehensive Income relate to the enlarged entity, whereas the 2017 comparative figures contain one month of revenue and costs for the legacy SDX business only, and 11 months for the enlarged entity.

### Non-IFRS measures

The MD&A contains the terms "netback" and "EBITDAX", which are not recognized measures under IFRS. The Company uses these measures to help evaluate its performance.

### Netback

EBITDAX is a non-IFRS measure that represents earnings before interest, tax, depreciation, amortization, exploration expense, and impairment, which is operating income/(loss) adjusted for the add-back of depreciation and amortization, exploration expense, and impairment of property, plant, and equipment (if applicable). EBITDAX is presented so that users of the financial statements can understand the cash profitability of the Company, excluding the impact of costs attributable to exploration activity, which tend to be one-off in nature, and the non-cash costs relating to depreciation, amortization, and impairments. EBITDAX may not be comparable to similar measures other companies use. See EBITDAX reconciliation to operating income/(loss) in note 21 to the Consolidated Financial Statements.

### EBITDAX

EBITDAX is a non-IFRS measure that represents earnings before interest, tax, depreciation, amortization, exploration expense, and impairment, which is operating income/(loss) adjusted for the add-back of depreciation and amortization, exploration expense, and impairment of property, plant, and equipment (if applicable). EBITDAX is presented so that users of the financial statements can understand the cash profitability of the Company, excluding the impact of costs attributable to exploration activity, which tend to be one-off in nature, and the non-cash costs relating to depreciation, amortization, and impairments. EBITDAX may not be comparable to similar measures other companies use. See EBITDAX reconciliation to operating income/(loss) in note 21 to the Consolidated Financial Statements.

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### SDX's business strategy and work program

#### SDX's business

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

#### Strategy

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

SDX intends to increase production and cash flow generation organically 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 the pursuit of this strategy, SDX also intends to leverage its balance sheet, early mover advantage, and its regional network to grow through the acquisition of undervalued and/or underperforming producing assets (located principally in onshore North Africa), while maintaining a strict financial discipline to ensure the efficient use of funds. On January 27, 2017, the Company completed the acquisition of the Egyptian and Moroccan assets of Circle Oil plc for US\$28.1 million after working capital adjustments and raised US\$40.0 million (before expenses) to fund this acquisition and provide additional capital for investment in the enlarged group portfolio.

Further details on this transaction can be found in note 4 to the Consolidated Financial Statements.

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

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

The Moulay Bouchta Ouest exploration licence (SDX 75% working interest and operator), was awarded to the Company in February 2019 and is expected to be granted in Q2 2019.

#### 2019 Work program

The Company's capital expenditure program for 2019 is expected to be approximately US\$36.0 million. In Morocco, the Company is planning for a 12-well campaign, with drilling set to begin in late Q3/early Q4 2019 and complete during H1 2020. During this campaign, the LNB-1 and LMS-1 wells in Lalla Mimouna, originally drilled in 2018, will be re-tested, with the remainder of the program's targets coming from the recently acquired Gharb Centre 3D seismic. It is anticipated that three wells from the 12-well program will be drilled in 2019. The 2019 total gross capex is expected to be approximately US\$10.0 million, with SDX's share being approximately US\$8.0 million. Of this US\$8.0 million, US\$6.0 million relates to the three planned wells and US\$2.0 million to the Company's share of facilities and field maintenance capex. The Company is targeting gross production of 9-11 MMscf/d of conventional natural gas sales by the end of 2019.

In South Disouq the Company is investing approximately US\$22.0 million, US\$18.5 million of which is for its share of the South Disouq development activities and US\$3.5 million is for two exploration wells. During H1 2019, SDX will complete construction of the Central Processing Facility, the 10km export pipeline and the tie-ins for the four existing production wells. First gas is targeted for mid-2019, at a gross plateau production rate of between 50-60 MMscf/d, with the conventional natural gas being sold to the state at a price of US\$2.85/Mcf. Prospect inventory for future drilling is expected to increase with the interpretation of the recently acquired 170km<sup>2</sup> of 3D seismic in the southern section of the concession. The Company is planning to drill two further exploration wells in 2019, with multiple additional conventional gas prospects and a conventional oil prospect also identified for future drilling.

In Meseda, c.US\$4.0 million will be contributed to cover the Company's share of the cost of drilling one Rabul well and one Meseda well. The operator also plans to replace up to five electrical submersible pumps ("ESPs") in the wider Meseda area and upgrade water handling capabilities at the field facilities. Gross capex in 2019 is expected to be approximately US\$8.0 million (US\$4.0 million net to SDX of which US\$1.6 million relates to the two planned wells and US\$2.4 million to ESP replacements and the facilities upgrade). The Company has 2019 gross production guidance of 4,000-4,200 barrels of oil per day (bbl/d).

In North West Gemsa, the Company will be investing c.US\$2.0 million for its share of a 10-well workover program, as the field is now fully developed and no additional wells are required. Given field decline, the Company expects 2019 gross production of 3,400-3,600 boe/d.

In South Ramadan, the Company continues to review technical data from the SRM-3 well result and will provide further updates to the market in due course.

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(prepared in US\$)

### Operational and financial highlights

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

US\$'000s unless stated	Prior quarter <sup>(1)</sup>	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
NW Gemsa oil sales revenue	12,936	10,439	9,087	42,260	31,641
Royalties	(5,552)	(4,480)	(3,900)	(18,137)	(13,580)
Net oil revenue	7,384	5,959	5,187	24,123	18,061
Block-H Meseda production service fee revenues	4,094	4,083	2,276	14,185	8,045
Morocco gas sales revenue	3,754	3,496	3,646	14,614	12,425
Royalties	(216)	(118)	-	(334)	-
Net Morocco gas sales revenue	3,538	3,378	3,646	14,280	12,425
Net other products revenue	391	420	(105)	1,091	635
<b>Total net revenue</b>	<b>15,407</b>	<b>13,840</b>	<b>11,004</b>	<b>53,679</b>	<b>39,166</b>
Direct operating expense	(3,380)	(3,392)	(2,526)	(11,934)	(10,254)
Netback: NW Gemsa oil (2)	5,452	4,085	3,648	17,475	11,563
Netback: Block-H Meseda	3,070	2,894	1,619	10,234	5,377
Netback: Morocco gas	3,114	3,049	3,316	12,945	11,337
Netback: Other products (2)	391	420	(105)	1,091	635
<b>Netback (pre-tax)</b>	<b>12,027</b>	<b>10,448</b>	<b>8,478</b>	<b>41,745</b>	<b>28,912</b>
<b>EBITDAX</b>	<b>10,995</b>	<b>7,103</b>	<b>7,959</b>	<b>34,306</b>	<b>21,401</b>
NW Gemsa oil sales (bbl/d)	1,987	1,808	1,710	1,743	1,733
Block-H Meseda production service fee (bbl/d)	802	864	561	734	595
Morocco gas sales (boe/d)	615	648	680	646	596
Other products sales (boe/d)	485	604	310	451	313
<b>Total sales volumes (boe/d)</b>	<b>3,889</b>	<b>3,924</b>	<b>3,261</b>	<b>3,574</b>	<b>3,237</b>
NW Gemsa oil sales volumes (bbls)	182,803	166,296	157,302	636,249	632,592
Block-H Meseda production service fee volumes (bbls)	73,761	79,530	51,599	267,834	217,135
Morocco gas sales volumes (boe)	56,602	59,573	62,543	235,694	217,655
Other products sales volumes (boe)	44,575	55,564	28,550	164,468	114,200
<b>Total sales volumes (boe)</b>	<b>357,741</b>	<b>360,963</b>	<b>299,994</b>	<b>1,304,245</b>	<b>1,181,582</b>
Brent oil price (US\$/bbl)	\$75.18	\$67.75	\$61.52	\$71.06	\$54.25
West Gharib oil price (\$US/bbl)	\$65.36	\$60.09	\$53.59	\$62.05	\$45.37
Realized NW Gemsa oil price (US\$/bbl)	\$70.76	\$62.77	\$57.77	\$66.42	\$50.02
Realized Block-H Meseda service fee (US\$/bbl)	\$55.50	\$51.34	\$44.11	\$52.96	\$37.05
Realized oil sales price and service fees (US\$/bbl)	\$66.38	\$59.07	\$54.39	\$62.43	\$46.70
Realized Morocco gas price (US\$/mcf)	\$11.05	\$9.78	\$9.72	\$10.33	\$9.51
Total royalties (US\$/boe)	\$16.88	\$13.53	\$9.89	\$14.86	\$11.28
Operating costs (US\$/boe)	\$9.45	\$9.40	\$8.42	\$9.15	\$8.68
<b>Netback (US\$/boe)</b>	<b>\$33.62</b>	<b>\$28.94</b>	<b>\$28.26</b>	<b>\$32.01</b>	<b>\$24.47</b>
Capital expenditures	11,017	8,316	15,302	44,023	21,040

(1) Three months ended September 30, 2018

(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.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Operational and financial highlights (continued)

#### Oil sales and production service fee revenues

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
Oil sales revenue	12,936	10,439	9,087	42,260	31,641
Production service fee revenues	4,094	4,083	2,276	14,185	8,045
<b>Total oil sales and production service fees revenue</b>	17,030	14,522	11,363	56,445	39,686

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

##### Oil sales volumes

Total oil sales volumes for the three and 12 months ended December 31, 2018 averaged 1,808 bbl/d and 1,743 bbl/d, compared to 1,710 bbl/d and 1,733 bbl/d for the comparative periods of the prior year.

Total sales volumes increased by 3,657 barrels, 1%, to 636,249 barrels in the 12 months ended December 31, 2018 compared to 632,592 barrels in the comparative period of 2017. On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2017, sales volumes decreased by 48,920 barrels, from 685,169 barrels, 7%, due to natural reservoir decline, partly mitigated by drilling and well workovers during 2018. The NW Gemsa concession reached its peak production rate in Q4 2014.

Total sales volumes decreased by 16,507 barrels, 9%, in the three months ended December 31, 2018 compared to the previous quarter. This decrease was driven by a number of operational factors, including water breakthrough at one well, increased water cut and pump repairs in several other wells.

##### Oil sales pricing

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

During the 12 months ended December 31, 2018 the Brent price ranged from a high of US\$85.63 per barrel on October 2, 2018 to a low of US\$50.57 per barrel on December 28, 2018. The Company does not currently hedge any of its production.

For the three and 12 months ended December 31, 2018, the Company's oil sales achieved an average realized price per barrel of oil of US\$62.77 and US\$66.42 respectively, compared to the average Brent Oil price ("Brent") for the periods of US\$67.75 and US\$71.06; a discount of US\$4.98 and US\$4.64, equating to 7% 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 because of marketing fees. For the three and 12 months ended December 31, 2017, the Company achieved average realized prices of US\$57.77 and US\$50.02 respectively.

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
Oil sales revenue (US\$'000s)	12,936	10,439	9,087	42,260	31,641
Realized price per bbl (\$/bbl)	70.77	62.77	57.77	66.42	50.02

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### Operational and financial highlights (continued)

#### Oil sales revenue variance from prior year

For the 12 months ended December 31, 2018 (compared to the 12 months ended December 31, 2017) oil sales revenue increased as a result of an increase in sales price of US\$10.4 million, 33%, and an increase in sales volume of US\$0.2 million, 1%, reflecting the impact of 12 months' increased interest in the concession, versus 11 months in 2017, partly offset by natural reservoir decline.

US\$'000s	
Twelve months ended December 31, 2017	31,641
Price variance	10,436
Production variance	183
<b>Twelve months ended December 31, 2018</b>	<b>42,260</b>

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

US\$'000s	
Twelve months ended December 31, 2017	34,270
Price variance	10,436
Production variance	(2,446)
<b>Twelve months ended December 31, 2018</b>	<b>42,260</b>

On this basis, improved pricing resulted in a 30% increase in revenue, partly offset by a 7% reduction in sales volumes, driven by natural reservoir decline.

#### Oil sales revenue variance from prior quarter

For the three months ended December 31, 2018 (compared to the three months ended September 30, 2018) oil sales revenue decreased by US\$2.5 million, 19%, due to a decrease in sales pricing of US\$1.3 million, 10%, and a decrease in sales volume of US\$1.2 million, 9%, due to a number of operational factors, including water breakthrough at one well, increased water cut, and pump repairs in several other wells.

US\$'000s	
Three months ended September 30, 2018	12,936
Price variance	(1,331)
Production variance	(1,166)
<b>Three months ended December 31, 2018</b>	<b>10,439</b>

### Production service fees (relates to Block-H Meseda (including Rabul))

#### Production service fee volumes

The Company records service fee revenue relating to the oil production that is delivered to the State Oil Company ("GPC") from the Meseda and Rabul areas of Block H. 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 for the three months ended December 31, 2018 increased by 27,931 barrels, 54%, to 79,530 barrels, compared to the three months ended December 31, 2017. This increase in volumes was the result of the Rabul discoveries coming on stream in late Q4 2017/early 2018, the MSD-16 and MSD-15 discoveries in Q2 and Q3 2018, and the continued impact of well workovers. Barrels produced per day increased from Q3 2018 by 62bbl/d, 8%, to 864bbl/d, with strong production from the MSD-15 discovery and workover results being the main factors.

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### Operational and financial highlights (continued)

#### Production service fees (relates to Block-H Meseda (including Rabul)) (continued)

##### Production service fee pricing

For the three and 12 months ended December 31, 2018 the Company received an average service fee per barrel of oil of US\$51.34 and US\$52.96 respectively, compared to the average West Gharib prices for the periods of US\$60.09 and US\$62.05, a discount of US\$8.75 and US\$9.09, equating to 15% per barrel respectively. The Company receives a discount to West Gharib because of the quality of the oil produced. For the three and 12 months ended December 31, 2017, the Company received average service fees per barrel of oil of US\$44.11 and US\$37.05 respectively.

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
Production service fee revenues (\$'000s)	4,094	4,083	2,276	14,185	8,045
Realized service fee per bbl (\$/bbl)	55.50	51.34	44.11	52.96	37.05

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

For the 12 months ended December 31, 2018 (compared to the 12 months ended December 31, 2017) the increase in production service fee revenue of US\$6.2 million, 78%, to US\$14.2 million is the result of an increase in realized sales price of US\$4.3 million, 54%, and increased production from the Rabul discoveries, the recently drilled MSD-16 and MSD-15 wells, and field workovers of US\$1.9 million, 23%.

US\$'000s	
Twelve months ended December 31, 2017	8,045
Price variance	4,262
Production variance	1,878
<b>Twelve months ended December 31, 2018</b>	<b>14,185</b>

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

For the three months ended December 31, 2018 (compared to the three months ended September 30, 2018) production service fee revenue was flat at US\$4.1 million. This was because the decrease in realized sales price (US\$0.3 million, 7%), was offset by increased production from the recently drilled MSD-15 well and ongoing workover activity (US\$0.3 million, 7%).

US\$'000s	
Three months ended September 30, 2018	4,094
Price variance	(331)
Production variance	320
<b>Three months ended December 31, 2018</b>	<b>4,083</b>

#### Morocco gas sales revenue

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
Morocco - Sebou	3,754	3,496	3,646	14,614	12,425
Realized price per mcf (\$/mcf)	11.05	9.78	9.72	10.33	9.51

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

##### Morocco gas sales variance from prior year

For the 12 months ended December 31, 2018 (compared to the 12 months ended December 31, 2017) the increase in production service fee revenue of US\$2.2 million, 18%, to US\$14.6 million is the result of an increase in realized sales price of US\$1.2 million, 10%, because of higher contract pricing at an existing customer, and increased production reflecting the impact of 12 months' ownership of the business, versus 11 months in 2017. On a pro forma basis, production was stable year on year, with reduced demand from an existing customer offset by new customer connections in Q4.

US\$'000s	
Twelve months ended December 31, 2017	12,425
Price variance	1,159
Production variance	1,030
<b>Twelve months ended December 31, 2018</b>	<b>14,614</b>



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### Operational and financial highlights (continued)

#### Morocco gas sales variance from prior quarter

For the three months ended December 31, 2018 (compared to the three months ended September 30, 2018) a decreased realized sales price of US\$0.5 million, 13%, due to a sales tax true up and a weaker Moroccan dirham against the US\$. This was partly offset by increased production as the result of new customer connections and higher demand from existing customers following the completion of planned maintenance.

US\$'000s

Three months ended September 30, 2018	3,754
Price variance	(455)
Production variance	197
<b>Three months ended December 31, 2018</b>	<b>3,496</b>

#### Other products sales revenue (relates to NW Gemsa only)

The Company sells associated gas and natural gas liquids ("NGLs") from its NW Gemsa concession to the Egyptian state. In December 2017, the operator of the NW Gemsa concession advised that the invoices it had issued were based on erroneous volumes and prices and that the revised invoices resulted in lower revenues. The adjustment was made during Q4 2017, with the portion relating to the acquired Circle Oil receivables adjusted through the gain on acquisition (US\$1.3 million), and the remainder through net revenue, resulting in a net negative US\$0.1 million revenue being recognized. A further correction was necessary for Q1 2018, with US\$0.2 million being adjusted through the gain on acquisition and US\$0.2 million through net revenue.

#### Royalties

Royalties fluctuate in Egypt (payable on NW Gemsa production only) from quarter to quarter because of changes in production and the impact of commodity prices on the amount of cost oil allocated to the contractors. In turn, there is an impact on the amount of profit oil from which royalties are calculated.

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

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
NW Gemsa	5,552	4,480	3,900	18,137	13,580
Total royalties (US\$/boe) by concession	30.37	26.94	24.79	28.51	21.47

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

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)	50%	30%	5 years	Immediate	Nil	16.1%
NW Gemsa (10,000 bopd to 25,000 bopd Gross)	50%	30%	5 years	Immediate	Nil	15.4%
NW Gemsa - Gas and LPG	50%	30%	5 years	Immediate	Nil	18.2%

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

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

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

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

In Morocco, sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession. During Q3 2018, natural gas production from the Ksiri exploitation concession exceeded such a threshold, resulting in the recognition of royalties amounting to 5% of revenue from this concession from that point forward. US\$0.3 million of royalties have been recognized in the Income Statement for the 12 months ended December 31, 2018. Royalty payments are made directly to the Government of Morocco biannually, with the next payment due in Q1 2019.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Operational and financial highlights (continued)

#### Direct operating expense

The direct operating costs per concession were:

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
NW Gemsa	1,932	1,874	1,539	6,648	6,498
Block-H Meseda	1,024	1,189	657	3,951	2,668
Morocco - Sebou	424	329	330	1,335	1,088
Other	-	-	-	-	-
<b>Total direct operating expense</b>	<b>3,380</b>	<b>3,392</b>	<b>2,526</b>	<b>11,934</b>	<b>10,254</b>

The direct operating costs per boe per concession were:

US\$/boe	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
NW Gemsa	8.50	8.45	8.28	8.30	8.70
Block-H Meseda	13.88	14.95	12.74	14.75	12.29
Morocco - Sebou	7.49	5.52	5.28	5.66	5.00
<b>Total direct operating costs per concession</b>	<b>9.45</b>	<b>9.40</b>	<b>8.42</b>	<b>9.15</b>	<b>8.68</b>

Direct operating costs for the three and 12 months ended December 31, 2018 were US\$3.4 million and US\$11.9 million respectively, compared to US\$2.5 million and US\$10.3 million respectively for the comparative period of the previous year. Prior quarter direct operating costs were in line with the current quarter.

#### NW Gemsa

NW Gemsa direct operating costs for the 12 months to December 31, 2018 were US\$6.6 million, in line with the comparative period of the prior year. This reflects a full 12 months' costs following the additional interest acquired from Circle Oil, partly offset by cost reductions at the operator.

#### Block-H Meseda

Direct operating costs for the 12 months to December 31, 2018 for Block-H Meseda were US\$1.3 million higher than the prior year owing to increased workover activity and increased production and were US\$0.2 million higher than the prior quarter for the same reasons. The increased number of workovers resulted in an increased US\$/boe cost of US\$14.95/boe in Q4 2018.

#### Morocco - Sebou

Direct operating costs for the 12 months to December 31, 2018 for Morocco were US\$0.2 million higher than the comparative period of the prior year, which included only 11 months of the Morocco business following the acquisition of Circle Oil. The costs for 2018 also include the increased allocated costs of operational employees. Direct operating costs were US\$0.1 million lower than the prior quarter as the result of higher partner billings, catching up prior periods.

#### Exploration and evaluation expense

For the 12 months ended December 31, 2018, exploration and evaluation expenses stood at US\$5.7 million compared to US\$0.2 million in the comparative period. The variance is due to the write-off of non-commercial wells drilled in Morocco (ELQ-1 and KSS-2: US\$3.5 million) and South Disouq (Kelvin-1X: US\$1.6 million) and increased new venture activity costs of US\$0.6 million, which relates to various business development and early stage/pre-license initiatives. There were no wells written off in the comparative period.

#### Depletion, depreciation and amortization

For the 12 months ended December 31, 2018, depletion, depreciation, and amortization ("DD&A") amounted to US\$17.3 million, compared to US\$17.8 million in the comparative period. The reduction of US\$0.5 million is the result of an upward 2P reserve revision in Morocco, partly offset by production growth in Block-H Meseda and a downward 2P reserve revision at NW Gemsa.

US\$'000s	Twelve months ended December 31	
	2018	2017
Depletion, depreciation and amortization	17,268	17,824
Per boe	13.24	15.08

The DD&A per concession was:

US\$'000s	Twelve months ended December 31	
	2018	2017
NW Gemsa	7,763	6,758
Block-H Meseda	1,897	1,094
Morocco - Sebou	7,230	9,885
Other	378	87
<b>Total DD&amp;A</b>	<b>17,268</b>	<b>17,824</b>

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Operational and financial highlights (continued)

#### Impairment expense

Following the reduction in oil price assumptions during Q4 2018, management tested the NW Gemsa asset for impairment, resulting in an estimated recoverable amount below net book value and an impairment expense of US\$3.5 million. Please see note 9 to the Consolidated Financial Statements for further discussion.

#### General and administrative expenses

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

General and administrative ("G&A") costs for the 12 months ended December 31, 2018 were US\$7.3 million, compared to US\$8.8 million for the comparative period of the prior year, a decrease of US\$1.5 million, or 17%.

The decrease of US\$1.5 million is primarily due to the following:

	US\$ millions	Analysis
Wages and employee costs	(0.1)	Wages and employee costs have decreased due to a lower bonus payment (US\$0.3 million), lower Egyptian severance costs (US\$0.3 million) and the absence in 2018 of US\$0.5 million of 2016 bonus that was awarded and paid in 2017. These reductions were partly offset by increased headcount in London and Cairo (US\$1.0 million), resulting in a net reduction of \$0.1 million.
Consultants - inc. PR/IR	(0.2)	Consultant fees have reduced due to lower usage of contract staff and the absence in 2018 of one-off executive remuneration consultancy advice received in 2017.
Audit, tax and accounting services	0.4	Audit, tax and accounting services costs have increased due to required external advisor support with tax audits in both Morocco and Egypt (US\$0.3 million) and an increased audit fee (US\$0.1 million).
Public company fees	0.2	Public company fees have increased due to higher levels of corporate activity across a number of areas.
Service recharges	(1.9)	The higher service recharges resulted from an overall increase in business activity in 2018 (the drilling campaign in Morocco and drilling/development activity at South Disouq, US\$1.8 million) and an increase in the recovery of indirect overhead recharges from concession partners (US\$0.1 million).
Other	0.1	
<b>Total decrease</b>	<b>(1.5)</b>	

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

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Operational and financial highlights (continued)

#### 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 income tax expense, thereby having a net neutral impact on net income.

The Company has a "cash" corporate tax liability in relation to its production service agreement for Block-H Meseda because the Company's Egyptian subsidiary, SDX Energy Egypt (Meseda) Ltd, which is party to this concession, is subject to corporate tax. The Company's Moroccan operations benefit from a 10-year corporation tax holiday from first production. No taxation is due on Moroccan profits as at December 31, 2018.

US\$'000s	Twelve months ended December 31	
	2018	2017
NW Gemsa	5,036	3,551
Block-H Meseda	1,971	1,017
Morocco - Sebou	-	-
Other	14	(27)
<b>Total current taxes</b>	<b>7,021</b>	<b>4,541</b>

Current taxes for the year ended December 31, 2018 were US\$7.0 million, compared to US\$4.5 million for 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.

#### Net earnings

As per the Consolidated Financial Statements for the year ended December 31, 2018 the Company recorded a Total Comprehensive Income of US\$0.1 million, compared to a Total Comprehensive Income of US\$28.3 million for the year ended December 31, 2017, a reduction of US\$28.2 million.

The main components of this difference are:

	US\$ millions	Analysis
Gain on acquisition	(29.8)	Absence in 2018 of gain on acquisition of the Circle Oil assets recorded in the comparative period
Net revenues	14.5	Increase in net revenues in 2018 because of higher commodity prices, 12 months of revenue from the acquired Circle Oil assets versus 11 months in 2017, and higher production at Block-H Meseda.
Direct operating expense	(1.6)	Increase in direct operating expense in 2018 because higher production at Block-H Meseda and 12 months of costs from the acquired Circle Oil assets versus 11 months in 2017.
Depletion, depreciation, and amortization	0.5	Lower DD&A charge in 2018 is the result of an upward 2P reserve revision in Morocco, partly offset by production growth in Block-H Meseda and a downward 2P reserve revision at NW Gemsa.
Impairment expense	(3.5)	The NW Gemsa asset was impaired by US\$3.5 million in 2018. No impairment was recognised in 2017.
Ongoing general and administrative expenses	(1.5)	Lower G&A expenses due to increased service recharges (US\$1.9 million) driven by higher operational activity in Morocco and South Disouq offset by a net US\$0.3 million increase across various other line items within G&A.
Transaction costs	0.1	2018 transaction costs relate to a number of business development initiatives, including the proposed acquisition of a package of assets in Egypt from BP and the re-domicile of the Group from Canada to the UK. Transaction costs for 2017 were all associated with the Circle Oil acquisition.
Exploration and evaluation expense	(5.5)	Increased exploration and evaluation expenditure due to the write off of the ELQ-1 and KSS-2 dry holes in Morocco and Kelvin-1X in South Disouq, and higher new venture spend
Current income tax expense	(2.5)	Increase 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.
Stock-based compensation	(0.8)	
Foreign exchange	0.1	
Inventory write-off	(0.4)	
Release of historic operational tax provision	0.3	
Other	1.9	
<b>Total decrease</b>	<b>(28.2)</b>	

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Operational and financial highlights (continued)

#### Capital expenditures

The following table shows the capital expenditure for the Company. It agrees with notes 9 and 10 to the Consolidated Financial Statements for the three and 12 months ended December 31, 2018, which include discussion therein.

US\$'000s	Prior quarter	Three months ended December 31		Twelve months ended December 31	
		2018	2017	2018	2017
Property, plant and equipment expenditures ("PP&E")	1,815	2,422	12,697	14,288	15,975
Exploration and evaluation expenditures ("E&E")	9,002	5,805	2,237	29,000	4,608
Office furniture and fixtures	200	89	368	735	457
<b>Total capital expenditures</b>	11,017	8,316	15,302	44,023	21,040

#### Decommissioning liability

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

For a discussion of the Company's decommissioning liability, see note 14 to the Consolidated Financial Statements for the year ended December 31, 2018.

### 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.

US\$'000s	Prior quarter	Twelve months ended	Twelve months ended
		December 31 2018	December 31 2017
High (CAD)	\$1.10	\$0.95	\$1.36
Low (CAD)	\$0.90	\$0.58	\$0.58
Average volume	140,098	109,546	175,512

The following table summarizes the outstanding common shares and options as at March 22, 2019, December 31, 2018, and December 31, 2017.

Outstanding as at:	March 22 2019	December 31 2018	December 31 2017
Common shares	204,723,041	204,723,041	204,493,040
Options (stock option plan)	2,115,000	2,115,000	2,851,667
Options (long-term incentive plan)	7,100,884	7,100,884	3,449,461

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

Exercise price range	Outstanding options		Vested options	
	Number of options	Remaining contractual life	Number of options	Remaining contractual life
CAD \$0.39 - \$0.76	2,115,000	3-5 years	1,795,000	3-5 years

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Liquidity and capital resources (continued)

#### 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 of options 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 and the amount previously recorded as contributed surplus are recorded as share capital.

##### Long-Term Incentive Plan

On July 31, 2017 the Company established a new Long-Term Incentive Plan ("LTIP") and issued awards to its executive directors and certain other key employees. For further details, see note 17 to the Consolidated Financial Statements.

#### Capital resources

As at December 31, 2018 the Company had working capital of approximately US\$29.4 million. The Company expects to fund its 2019 capital program through funds generated from operations and cash on hand.

As at December 31, 2018, the Company had cash and cash equivalents of US\$17.3 million, compared to US\$25.8 million as at December 31, 2017.

During the 12 months ended December 31, 2018 the Company had a net cash outflow of US\$8.5 million (including the effects of foreign exchange on cash and cash equivalents). For further details, please see the sources and uses table below.

As at December 31, 2018, the Company had US\$24.3 million in trade and other receivables, compared to US\$37.7 million as at December 31, 2017. US\$14.8 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 recorded US\$1.8 million receivable related to the joint venture partner account for the South Disouq concession.

US\$3.1 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, connection, and production costs.

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

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

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

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

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Liquidity and capital resources (continued)

#### Capital resources (continued)

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

US\$'000s	December 31 2018	December 31 2017
<b>Current assets</b>		
Cash and cash equivalents	17,345	25,844
Trade and other receivables	24,324	37,656
Inventory	5,236	5,157
<b>Total current assets</b>	<b>46,905</b>	<b>68,657</b>
<b>Current liabilities</b>		
Trade and other payables	14,418	19,459
Deferred income	495	495
Decommissioning liability	1,125	1,063
Current income taxes	1,458	915
<b>Total current liabilities</b>	<b>17,496</b>	<b>21,932</b>
<b>Working capital</b>	<b>29,409</b>	<b>46,725</b>

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

US\$'000s	Twelve months ended December 31	
	2018	2017
<b>Sources</b>		
Operating cash flow before working capital movements	28,744	16,047
Issuance of common shares	114	48,510
Cash balance acquired during the period	-	3,108
Changes in non-cash working capital	8,584	5,933
Dividends received	525	760
Effect of foreign exchange on cash and cash equivalents	-	141
<b>Total sources</b>	<b>37,967</b>	<b>74,499</b>
<b>Uses</b>		
Property, plant and equipment expenditures	(21,945)	(21,132)
Exploration and evaluation expenditures	(22,865)	(3,785)
Acquisition of subsidiaries	-	(28,056)
Finance costs paid	(197)	(43)
Income taxes paid	(1,091)	(364)
Effect of foreign exchange on cash and cash equivalents	(368)	-
<b>Total uses</b>	<b>(46,466)</b>	<b>(53,380)</b>
<b>(Decrease)/increase in cash</b>	<b>(8,499)</b>	<b>21,119</b>
Cash and cash equivalents at beginning of period	25,844	4,725
<b>Cash and cash equivalents at end of period</b>	<b>17,345</b>	<b>25,844</b>

The Company's operating cash flow before working capital movements for the 12 months ended December 31, 2018, compared to the comparative period ended December 31, 2017, has increased by US\$12.7 million primarily due to:

- i) an increase of US\$14.5 million in net revenues because of higher commodity prices, 12 months of revenue from the acquired Circle Oil assets versus 11 months in 2017, and higher production at Block-H Meseda; offset by
- ii) an increase of US\$1.6 million in operating costs because of the acquisition of the Egyptian and Moroccan assets of Circle Oil and increased production at Block-H Meseda.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Liquidity and capital resources (continued)

#### Financial instruments

The Company is exposed to financial risks because of the nature of its business and the financial assets and liabilities that it holds. This section outlines 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 the result of changes in commodity prices. Commodity prices for oil and natural gas are affected by not only the relationship between the United States dollar and other currencies, but also world economic events that have an impact on the perceived levels of supply and demand. The Company may hedge some oil and natural gas sales using 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.

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

#### Foreign currency risk

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

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

	Total per FS <sup>(1)</sup>	US\$	EGP US\$ Equivalent	MAD	GBP	Other
<b>As at December 31, 2018</b>						
Cash and cash equivalents	17,345	10,645	2,712	1,864	1,983	141
Trade and other receivables <sup>(2)</sup>	23,689	15,979	24	6,750	898	38
Trade and other payables	(14,418)	(6,370)	(1,349)	(4,363)	(2,316)	(20)
<b>Balance sheet exposure</b>	<b>26,616</b>	<b>20,254</b>	<b>1,387</b>	<b>4,251</b>	<b>565</b>	<b>159</b>

(1) FS denotes Financial Statements.

(2) Excludes prepayments.

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

Average: October 1, 2018 to December 31, 2018				Average: October 1, 2017 to December 31, 2017			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.9206	0.7769	9.5089	Period average	17.7107	0.7537	9.4442

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

Average: January 1, 2018 to December 31, 2018				Average: January 1, 2017 to December 31, 2017			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.8191	0.7499	9.3893	Period average	17.8534	0.7770	9.7047

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

Period end: December 31, 2018				Period end: December 31, 2017			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period end	17.8919	0.7812	9.5610	Period end	17.7875	0.7398	9.3519



# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Liquidity and capital resources (continued)

#### Financial instruments (continued)

##### Trade and other payables

The foreign currency risk from a trade and other payables perspective arises because 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 paid in both jurisdictions.

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

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

For a discussion of the Company's trade and other payables, see note 12 to the Consolidated Financial Statements for the year ended December 31, 2018.

##### 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. It 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 was as follows:

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

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

##### Trade and other receivables

All the Company's operations as at December 31, 2018 were conducted in Egypt and Morocco. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The Company does not anticipate any default and 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 the forecast use of EGP in operations, and does not consider it necessary to apply discounting. Receivables due from ONHYM are not expected to be fully recovered during the next 12 months and have been discounted at 5%, with an associated finance expense of US\$0.3 million recognized in the Consolidated Statement of Comprehensive Income.

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

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

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

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Liquidity and capital resources (continued)

#### Financial instruments (continued)

##### Trade and other receivables (continued)

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

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

For a discussion of the Company's trade and other receivables, see note 6b to the Consolidated Financial Statements for the three and 12 months ended December 31, 2018.

#### 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:

US\$'000s	Carrying amount	
	December 31 2018	December 31 2017
Equity	116,039	114,619
Working capital <sup>(1)</sup>	(29,409)	(46,725)
<b>Total capital</b>	<b>86,630</b>	<b>67,894</b>

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

The Company's objective when managing its capital is to ensure that it has sufficient 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 that 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, 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 its 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 the year ended December 31, 2018.

#### Accounting policies

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

Further information on the accounting policies and estimates can be found in the notes to the Consolidated Financial Statements for the three and 12 months ended December 31, 2018.

#### Future changes in accounting policies

There are no updates to future changes in accounting policies in the first 12 months of 2018.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Business risk assessment

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

#### Political risk

SDX operates in Egypt and Morocco, countries that have different political, economic and social systems from 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 the 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 because of lower oil prices or otherwise, it will affect its ability to expend the necessary capital to replace its reserves or to maintain its production. If cash flow from operations is 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 that 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. SDX mitigates these risks through the use of skilled staff, focusing exploration efforts in areas in which the Company has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods, and controlling costs to maximize returns. Despite these efforts, oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that SDX will be able to locate satisfactory properties for acquisition or participation or that the Company's expenditures on future exploration will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to accurately project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

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

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

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Business risk assessment (continued)

#### Oil and natural gas prices

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

#### 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 from them, 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 are based on 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 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 and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based on volumetric calculations and comparisons 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 on 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 including, but 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 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 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 that SDX is not the operator of its oil and natural gas properties, it will depend on such operators for the timing of activities related to such properties and is largely unable to direct or control the activities of the operators. In addition, the success of the Company will largely depend on 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 key employee could have a material adverse effect on the Company.

#### Government regulations

SDX may be subject to various laws, regulations, regulatory actions and court decisions that can have negative effects on it. Changes in the regulatory environment imposed upon the Company could adversely affect its ability 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 that 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.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Business risk assessment (continued)

#### 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 the Company's oil and gas investments are located outside 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

SDX 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, 2018. The Company makes no assessment relating to the 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, 2018.

# Management's Discussion & Analysis

## for the three and twelve months ended December 31, 2018

(prepared in US\$)

### Summary of quarterly results

Fiscal year	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial US\$'000s								
Cash, beginning of period	18,713	25,234	29,277	25,844	30,469	27,627	21,052	4,725
Cash, end of period	17,345	18,713	25,234	29,277	25,844	30,469	27,627	21,052
Working capital	29,409	33,190	36,355	43,091	46,725	58,397	43,048	40,039
Comprehensive income/(loss)	(4,029)	3,169	640	331	(2,621)	4,408	(427)	26,947
Net income/(loss) per share - basic	(0.020)	0.015	0.003	0.002	(0.013)	0.022	(0.005)	0.172
Capital expenditure	8,316	11,017	14,742	9,948	15,328	3,423	1,504	811
Total assets	138,107	146,239	143,419	140,497	141,057	138,898	132,766	132,794
Shareholders' equity	116,039	119,848	116,246	115,282	114,619	116,981	102,559	102,964
Common shares outstanding (000s)	204,723	204,706	204,493	204,493	204,493	204,459	186,900	186,900

Fiscal year	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operational								
NW Gemsa oil sales (bbl/d)	1,808	1,987	1,665	1,507	1,710	1,893	1,832	1,493
Block-H Meseda production service fee (bbl/d)	864	802	706	558	561	551	623	646
Morocco gas sales (boe/d)	648	615	656	664	680	611	651	441
Other products sales (boe/d)	604	485	403	307	310	384	419	287
Total boe/d	3,924	3,889	3,430	3,036	3,261	3,439	3,525	2,867
NW Gemsa oil sales volumes (bbls)	166,296	182,803	151,520	135,630	157,302	174,202	166,693	134,395
Block-H Meseda production service fee volumes (bbls)	79,530	73,761	64,286	50,257	51,599	50,674	56,736	58,126
Morocco gas sales volumes (boe)	59,573	56,602	59,740	59,779	62,543	56,219	59,246	39,646
Other products sales volumes (boe)	55,564	44,575	36,681	27,646	28,550	35,404	38,143	25,832
Total sales and service fee volumes (boe)	360,963	357,741	312,227	273,312	299,994	316,499	320,818	257,999
Brent oil price (US\$/bbl)	67.75	75.18	74.53	66.86	61.52	52.07	49.68	53.64
West Gharib oil price (US\$/bbl)	60.09	65.36	63.99	58.75	53.59	44.48	41.50	41.93
Realized oil price (US\$/bbl)	62.77	70.76	68.41	62.81	57.77	48.28	45.56	48.73
Realized service fee (US\$/bbl)	51.34	55.50	54.37	50.00	44.11	36.41	33.98	34.34
Realised oil sales price and service fees	59.07	66.38	64.23	59.34	54.39	45.61	42.62	44.38
Realized Morocco gas price (US\$/mcf)	9.78	11.05	10.51	10.03	9.72	9.53	9.44	9.29
Royalties (US\$/boe)	13.53	16.88	14.90	13.92	9.89	11.94	10.97	11.37
Operating costs (US\$/boe)	9.40	9.45	10.15	7.30	8.42	8.44	9.22	7.94
Netback - (US\$/boe)	28.94	33.62	33.00	32.80	23.54	21.48	21.64	9.08