



Management's Discussion & Analysis

2019 Q1 Interim Report

The accompanying Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2019, which are published, inter alia, for the purposes of discharging the Company's obligations arising in connection with the listing of its shares on the Toronto Stock Exchange, have been prepared in accordance with generally accepted accounting principles. They have not been reviewed or audited by the Company's Auditors and do not constitute a preliminary statement of the Company's annual results.

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For the three months ended March 31, 2019

(prepared in US\$)

Basis of presentation

The following Management's Discussion and Analysis ("MD&A") dated May 17, 2019, is a review of the results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), for the three months ended March 31, 2019. This MD&A should be read in conjunction with the accompanying unaudited Interim Condensed Consolidated Financial Statements ("Interim Consolidated Financial Statements") for the three months ended March 31, 2019 and the audited Consolidated Financial Statements for the year ended December 31, 2018.

The Interim Consolidated Financial Statements for the three months ended March 31, 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. The Interim Consolidated Financial Statements do not include all the information and disclosures required in annual financial statements.

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 6:1 conversion ratio may be misleading as an indication of value.

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.

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

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

Netback is a non-IFRS measure that represents sales net of all operating expenses and government royalties. Management believes netback to be 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 because it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures other companies use. See Netback reconciliation to operating income/(loss) in note 21 to the Interim Consolidated Financial Statements.

EBITDAX

EBITDAX is a non-IFRS measure that represents earnings before interest, tax, depreciation, amortization, exploration expense, and impairment, which is operating income/(loss) adjusted for the add-back of depreciation and amortization, exploration expense, and impairment of property, plant, and equipment (if applicable). EBITDAX is presented 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 Interim Consolidated Financial Statements.

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SDX's business strategy and work program

SDX's business

SDX is engaged in the exploration, development, and production of oil and gas. Current activities are concentrated in Egypt and Morocco, where the Company has interests in nine 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 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 located principally in onshore North Africa, while maintaining a strict financial discipline to ensure efficient use of funds.

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

- Egypt (development/producing)-The NW Gemsa Concession ("NW Gemsa")-(50% WI);
- 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 Nord Concession ("Lalla Mimouna Nord")-(75% WI);
- Morocco (exploration)-The Lalla Mimouna Sud Concession ("Lalla Mimouna Sud")-(75% WI);
- Morocco (exploration)-The Moulay Bouchta Ouest Concession ("Moulay Bouchta")-(75% WI) and
- Morocco (exploration)-The Gharb Centre Concession ("Gharb Centre")-(75% WI).

The Lalla Mimouna Sud and Moulay Bouchta Concessions (SDX 75% working interest and operator), were awarded to the Company in February 2019 and are expected to be granted in Q2 2019.

2019 Work program

The Company's capital expenditure program for 2019 is expected to be approximately US\$36.2 million. In Morocco, the Company is planning for a 12-well campaign, with drilling set to begin in 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 and the Sebou area. SDX's share of 2019 total capex is expected to be approximately US\$12.0 million. Out of this US\$12.0 million, US\$3.4 million relates to long lead items for the twelve wells and US\$6.0m relates to the drilling costs for up to four wells expected to be drilled by the end of 2019. The remaining US\$2.6 million relates to the Company's share of facilities and field maintenance capex. The Company is targeting annual average gross production of 6.0-6.5 MMscf/d of conventional natural gas for 2019.

In South Disouq the Company is investing approximately US\$19.5 million, US\$17.0 million of which is for its share of the South Disouq development activities and US\$2.5 million is for long lead items and drilling preparations for two exploration wells in 2020. During 2019, SDX will complete construction of the Central Processing Facility, the 10 km export pipeline and the tie-ins for the four existing production wells. First gas is targeted for Q4 2019, at a gross plateau production rate of c.50 MMscfe/d by Q1 2020, with the conventional natural gas being sold to the state at a price of US\$2.85/Mcf. Prospect inventory for future drilling has increased with the interpretation of the recently acquired 170 km² of 3D seismic in the southern section of the concession and, subject to partner approval, the Company is proposing to drill two further exploration wells in 2020 prior to the concession expiry on March 20, 2020.

In Meseda, c.US\$1.6 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, drill two water injection wells and upgrade water handling capabilities at the field facilities (SDX share US\$1.1 million). 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 now expects 2019 gross production of 3,000-3,200 boe/d (previously 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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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	Prior quarter ⁽¹⁾	Three months ended March 31	
		2019	2018
NW Gemsa oil sales revenue	10,439	8,312	8,519
Royalties	(4,480)	(3,568)	(3,656)
Net oil revenue	5,959	4,744	4,863
Block-H Meseda production service fee revenues	4,083	3,536	2,513
Morocco gas sales revenue	3,496	4,213	3,597
Royalties	(118)	(186)	-
Net Morocco gas sales revenue	3,378	4,027	3,597
Net other products revenue	420	374	(13)
Total net revenue	13,840	12,681	10,960
Direct operating expense	(3,392)	(3,374)	(1,994)
Netback: NW Gemsa oil ⁽²⁾	4,085	2,945	3,974
Netback: Block-H Meseda	2,894	2,426	1,704
Netback: Morocco gas	3,049	3,562	3,301
Netback: Other products ⁽²⁾	420	374	(13)
Netback (pre-tax)	10,448	9,307	8,966
EBITDAX	7,103	7,808	7,389
NW Gemsa oil sales (bbl/d)	1,808	1,586	1,507
Block-H Meseda production service fee (bbl/d)	864	826	558
Morocco gas sales (boe/d)	648	761	664
Other products sales (boe/d)	604	542	307
Total sales volumes (boe/d)	3,924	3,715	3,036
NW Gemsa oil sales volumes (bbls)	166,296	142,768	135,630
Block-H Meseda production service fee volumes (bbls)	79,530	74,315	50,257
Morocco gas sales volumes (boe)	59,573	68,458	59,779
Other products sales volumes (boe)	55,564	48,791	27,646
Total sales volumes (boe)	360,963	334,332	273,312
Brent oil price (US\$/bbl)	\$67.75	\$63.02	\$66.86
West Gharib oil price (\$US/bbl)	\$60.09	\$56.03	\$58.75
Realized NW Gemsa oil price (US\$/bbl)	\$62.77	\$58.22	\$62.81
Realized Block-H Meseda service fee (US\$/bbl)	\$51.34	\$47.58	\$50.00
Realized oil sales price and service fees (US\$/bbl)	\$59.07	\$54.58	\$59.34
Realized Morocco gas price (US\$/mcf)	\$9.78	\$10.26	\$10.03
Total royalties (US\$/boe)	\$13.53	\$11.99	\$13.92
Operating costs (US\$/boe)	\$9.40	\$10.09	\$7.30
Netback (US\$/boe)	\$28.94	\$27.84	\$32.80
Capital expenditures	8,316	13,041	9,948

(1) Three months ended December 31, 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.

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Operational and financial highlights (continued)

Oil sales and production service fee revenues

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
Oil sales revenue	10,439	8,312	8,519
Production service fee revenues	4,083	3,536	2,513
Total oil sales and production service fees revenue	14,522	11,848	11,032

Oil sales revenue (relates to NW Gemsa only)

Oil sales volumes

Total oil sales volumes for the three months ended March 31, 2019 averaged 1,586 bbl/d against 1,507 bbl/d for the comparative period of the prior year.

Total sales volumes increased by 7,138 barrels, 5%, to 142,768 barrels in the three months ended March 31, 2019 compared to 135,630 barrels in the comparative period of 2018. This increase was driven by three new wells coming into production in Q3 2018, AASE-25, AASE-27 and Al Ola-4, which compensated for water breakthrough in one well and water cut increase in several wells.

Total sales volumes decreased by 23,528 barrels, 14%, in the three months ended March 31, 2019 compared to the previous quarter. This decrease was driven by lower reservoir pressure and water cut increase, both due to field decline, partly mitigated by well workover results.

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 for capital and operational expenditure. 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 three months ended March 31, 2019 the Brent price ranged from a low of US\$53.23 per barrel on January 3, 2019 to high of US\$68.35 per barrel on March 20, 2019. The Company does not currently hedge any of its production.

For the three months ended March 31, 2019, oil sales made by the Company achieved an average realized price per barrel of oil of US\$58.22 compared to the average Brent Oil price ("Brent") for the period of US\$63.02; a discount of US\$4.80, 8% per barrel. The Company receives a discount to Brent because of the quality of the oil produced and a further deduction is reflected in the realized price as a result of marketing fees. For the three months ended March 31, 2018, the Company achieved an average realized price of US\$62.81.

	Prior quarter	Three months ended March 31	
		2019	2018
Oil sales revenue (US\$'000s)	10,439	8,312	8,519
Realized price per bbl (\$/bbl)	62.77	58.22	62.81

Oil sales revenue variance from prior year

For the three months ended March 31, 2019 (compared to the three months ended March 31, 2018) oil sales revenue decreased by US\$0.2 million as a result of a decrease in sales price of US\$0.7 million, 8%. The decrease was partly offset by an increase in sales volume of US\$0.4 million, 5%, as three wells were put into production after Q1 2018, which compensated for natural field decline.

US\$'000s	
Three months ended March 31, 2018	8,519
Price variance	(655)
Production variance	448
Three months ended March 31, 2019	8,312

Oil sales revenue variance from prior quarter

For the three months ended March 31, 2019 (compared to the three months ended December 31, 2018) oil sales revenue decreased as a result of a reduction in sales pricing of US\$0.7 million, 6%, and a decrease in sales volume of US\$1.5 million, 14%, owing to a number of operational factors, including one well ceasing to flow because of low reservoir pressure and increased water cut.

US\$'000s	
Three months ended December 31, 2018	10,439
Price variance	(649)
Production variance	(1,478)
Three months ended March 31, 2019	8,312

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Operational and financial highlights (continued)

Production service fees (relates to Meseda only)

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 area 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 March 31, 2019 increased by 24,058 barrels, 48%, to 74,315 barrels, compared to the three months ended March 31, 2018. The increase was the result of the MSD-16 and MSD-15 discoveries in Q2 and Q3 2018 and greater production from Rabul discoveries. Together they compensated for a reduction in production resulting from increased water cut in three wells and other downhole issues.

Barrels produced per day decreased from Q4 2018 by 38bbl/d, 4%, to 826bbl/d, due to water cut increase in two wells (RB-5 and MSD-15), which offset strong production resulting from Q4 2018 well workovers.

Production service fee pricing

For the three months ended March 31, 2019 the Company received an average service fee per barrel of oil of US\$47.58, compared to the average West Gharib price for the period of US\$56.03, a discount of US\$8.45, 15%, per barrel against the West Gharib price and 25% per barrel against Brent. The Company receives a discount to West Gharib because of the quality of the oil produced. For the three months ended March 31, 2018, the Company received an average service fee of US\$50.00 per barrel of oil.

	Prior quarter	Three months ended March 31	
		2019	2018
Production service fee revenues (US\$'000s)	4,083	3,536	2,513
Realized service fee per bbl (\$/bbl)	51.34	47.58	50.00

Production service fee variance from prior year

For the three months ended March 31, 2019 (compared to the three months ended March 31, 2018) the increase in production service fee revenue of US\$1.0 million, 40%, to US\$3.5 million was due to increased production of US\$1.2 million, 48%, mainly owing to discoveries made in 2018, which were partially offset by a decrease in realized sales price by US\$0.2 million, 8%.

US\$'000s	
Three months ended March 31, 2018	2,513
Price variance	(180)
Production variance	1,203
Three months ended March 31, 2019	3,536

Production service fee variance from prior quarter

For the three months ended March 31, 2019 (compared to the three months ended December 31, 2018) the decrease in production service fee revenue of US\$0.6 million, 15%, was due to a decrease in the realized sales price (US\$0.3 million, 7%), coupled with a decrease in production (US\$0.3 million, 7%).

US\$'000s	
Three months ended December 31, 2018	4,083
Price variance	(279)
Production variance	(268)
Three months ended March 31, 2019	3,536

Morocco gas sales revenue

	Prior quarter	Three months ended March 31	
		2019	2018
US\$'000s			
Morocco-Sebou	3,496	4,213	3,597
Realized price per mcf (\$/mcf)	9.78	10.26	10.03

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

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Operational and financial highlights (continued)

Morocco gas sales variance from prior year

For the three months ended March 31, 2019 (compared to the three months ended March 31, 2018) the increase in Morocco gas sales revenue of US\$0.6 million, 17%, is due to an increase in realized sales price (US\$0.1 million, 3%) resulting from improved pricing with new and existing customers, and an increase in sales volumes (US\$0.5 million, 14%), driven by new customer connections at the end of 2018.

US\$'000s

Three months ended March 31, 2018	3,597
Price variance	93
Production variance	523
Three months ended March 31, 2019	4,213

Morocco gas sales variance from prior quarter

For the three months ended March 31, 2019 (compared to the three months ended December 31, 2018) the increase in Morocco gas sales revenue of US\$0.7 million, 20%, is due to an increase in realized sales price (US\$0.2 million, 6%) resulting from the strengthening of the MAD against the US\$, the absence of a sales tax true up in Q4 2018 which was depressing revenues in that period and an increase in production (US\$0.5 million, 14%), as the result of new customer connections.

US\$'000s

Three months ended December 31, 2018	3,496
Price variance	195
Production variance	522
Three months ended March 31, 2019	4,213

Royalties

Royalties fluctuate in Egypt 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 March 31	
		2019	2018
NW Gemsa	4,480	3,568	3,656
Total royalties (US\$/boe) by concession	26.94	24.99	26.96

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 March 31, 2019 and March 31, 2018):

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 bbl/d 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.

(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, which is referred to as excess cost oil ("Excess Oil"), reverts 100 percent to the state in NW Gemsa.

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

For the purposes of the operating and financial highlights disclosure in the MD&A, royalties per boe for the Company are calculated by 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. Royalty payments are made directly to the Government of Morocco biannually, with the next payment scheduled to be made in Q2 2019.

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Operational and financial highlights (continued)

Direct operating costs

The direct operating costs per concession were:

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
NW Gemsa	1,874	1,799	889
Block-H Meseda	1,189	1,110	809
Morocco-Sebou	329	465	296
Total direct operating expense	3,392	3,374	1,994

The direct operating costs per boe per concession were:

US\$/boe	Prior quarter	Three months ended March 31	
		2019	2018
NW Gemsa	8.45	9.39	5.44
Block-H Meseda	14.95	14.94	16.10
Morocco-Sebou	5.52	6.79	4.95
Total direct operating costs per boe	9.40	10.09	7.30

Direct operating costs for the three months ended March 31, 2019 were US\$3.4 million compared to US\$2.0 million for the comparative period of the prior year and in line with the prior quarter.

NW Gemsa

NW Gemsa direct operating costs for the three months to March 31, 2019 were US\$1.8 million, US\$0.9 million higher than the comparative period of the prior year and US\$0.1 million lower than the prior quarter. The variance compared to the three months ended March 31, 2018 is to the result of additional direct operating costs from new wells since Q1 2018 and increased workover activity in Q1 2019. The quarter on quarter increase in the NW Gemsa direct operating costs per US\$/boe to US\$9.39/boe from US\$8.45/boe is due to lower production in Q1 2019.

Block-H Meseda

Direct operating costs for the three months to March 31, 2019 for Block H-Meseda were US\$0.3 million higher than the comparative period of the prior year owing to increased production and were US\$0.1 million lower than the prior quarter. The US\$/boe cost decreased to US\$14.94/boe in the three months ended March 31, 2019 compared to US\$16.10/boe in the comparative period last year due to increased workover costs during Q1 2018.

Morocco-Sebou

Direct operating costs for the three months to March 31, 2019 for Morocco were US\$0.2 million higher than the comparative period of the prior year and US\$0.2 million higher than the prior quarter.

Direct operating costs increased by US\$0.2 million from both comparative periods due to a true up made relating to 2018 costs in Q1 2019, the result of late billings received from the Company's partner.

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Operational and financial highlights (continued)

Exploration and evaluation expense

For the three months ended March 31, 2019, exploration and evaluation expenses stood at US\$0.2 million compared to US\$3.3 million in the comparative period. The variance is due to the write-off of non-commercial wells drilled in Morocco in Q1 2018 (ELQ-1 and KSS-2: US\$3.2 million).

Depletion, depreciation and amortization

For the three months ended March 31, 2019, depletion, depreciation, and amortization ("DD&A") amounted to US\$5.9 million, compared to US\$2.5 million in the comparative period.

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
Depletion, depreciation and amortization	6,348	5,898	2,533
Per boe	17.59	17.64	9.27

The DD&A per concession was:

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
NW Gemsa	2,639	2,179	866
Block-H Meseda	844	624	277
Morocco-Sebou	2,747	2,804	1,362
Right-of-use assets	-	171	-
Other	118	120	28
Total DD&A	6,348	5,898	2,533

The DD&A movement by concession is primarily the result of the following:

- The increase of \$1.3 million in DD&A for NW Gemsa for the three months ended March 31, 2019 compared to the same period of the prior year, to the result of a higher depreciable asset base due to wells drilled in 2018, a reserves downgrade in 2018, and higher production. The decrease of \$0.5 million compared to the prior quarter is due to a lower depreciable asset base following the US\$3.5 million impairment recognized in Q4 2018 and lower production.
- The DD&A for Block-H Meseda was \$0.6 million for the three months ended March 31, 2019 compared to \$0.3 million for the comparative period of the prior year. The variance is due to a higher depreciable asset base resulting from wells drilled in 2018, and higher production.
- The DD&A for Morocco increased by \$1.4 million for the three months ended March 31, 2019 compared to the comparative period of the prior year owing to a higher depreciable asset base due to wells drilled in 2018, customer connections and facilities upgrades in 2018 and 2019, and higher production.
- The DD&A for right-of-use assets was \$0.2 million and related to the transition to IFRS 16. Please refer to note 23 in the Interim Consolidated Financial Statements.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Operational and financial highlights (continued)

General and administrative expenses

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
Wages and employee costs	1,157	1,902	1,883
Consultants-inc. PR/IR	159	175	128
Legal fees	101	152	94
Audit, tax and accounting services	357	104	132
Public company fees	115	158	195
Travel	149	11	83
Office expenses	244	118	278
IT expenses	109	129	156
Service recharges	(1,401)	(1,539)	(1,704)
Ongoing general and administrative expenses	990	1,210	1,245
Transaction costs	2,455	338	-
Total net G&A	3,445	1,548	1,245

Ongoing general and administrative ("G&A") costs for the three months ended March 31, 2019 were US\$1.2 million compared to US\$1.2 million for the comparative period of the prior year, primarily due to lower services recharges which were greater in Q1 2018 because of the ongoing drilling campaigns in Morocco and South Disouq offset by lower office expenses which have reduced due to the change in accounting standard for leases under IFRS 16, with a corresponding US\$0.2 million increase in DD&A as discussed above.

Transaction costs related to several 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, amounted to US\$2.5 million in Q4 2018 and US\$0.3 million in Q1 2019.

Wages and employee costs for the three months ended March 31, 2019 were US\$1.9 million compared to US\$1.2 million for the three months ended December 31, 2018, which were lower due to a bonus accrual reduction made in Q4 2018.

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 as the Company's Egyptian subsidiary, SDX Energy Egypt (Meseda) Ltd, that 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 and no taxation is due on Moroccan profits as at March 31, 2019.

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
NW Gemsa	1,378	980	975
Block-H Meseda	455	433	339
Morocco-Sebou	-	-	-
Other	-	-	14
Total current taxes	1,833	1,413	1,328

Current taxes for the three months ended March 31, 2019 were US\$1.4 million compared to US\$1.3 million for the comparative period of the previous year. The variance is due to improved profitability at Block-H Meseda.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Operational and financial highlights (continued)

Net earnings

As per the Interim Consolidated Financial Statements, for the three months ended March 31, 2019 the Company recorded a Total Comprehensive Income of US\$0.1 million, compared to a Total Comprehensive Income of US\$0.3 million for the three months ended March 31, 2018, a reduction of US\$0.2 million.

The main components of this difference are:

	US\$ millions	Comment
Net revenues	1.7	Increase in net revenues in 2019 as a result of increased production in Morocco and Block-H Meseda offset by the impact of lower oil prices comparative to Q1 2018.
Direct operating expense	(1.4)	Increase in direct operating expense in 2019 due to higher production at Block-H Meseda, more wells on production and workover activity at NW Gemsa.
General and administrative expenses - Transaction costs	(0.3)	Higher 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.
Exploration and evaluation expense	3.1	Lower exploration and evaluation expenditure due to write off of the ELQ-1 and KSS-2 dry holes in Morocco in Q1 2018.
Depletion, depreciation, and amortization	(3.4)	DD&A charge is higher by US\$0.2 million due to the IFRS 16 transition. The remaining variance is because of a higher depreciable asset base due to wells drilled in 2018, a reserves downgrade in 2018 and higher levels of production in Morocco and Block-H Meseda.
Other	0.1	
Total variance	(0.2)	

Capital expenditures

The following table shows the capital expenditure for the Company and agrees with notes 8 and 9 to the Interim Consolidated Financial Statements for the three months ended March 31, 2019, which include discussion therein.

US\$'000s	Prior quarter	Three months ended March 31	
		2019	2018
Property, plant and equipment expenditures ("PP&E")	2,422	1,359	3,454
Exploration and evaluation expenditures ("E&E")	5,805	11,660	6,270
Office furniture and fixtures	89	22	224
Total capital expenditures	8,316	13,041	9,948

Decommissioning liability

US\$'000s	Carrying amount	
	March 31 2019	December 31 2018
Decommissioning liability, beginning of period	5,167	4,542
Changes in estimate	-	575
Payments for decommissioning	-	(23)
Accretion	11	73
Decommissioning liability, end of period	5,178	5,167
Of which:		
Current	1,125	1,125
Non-current	4,053	4,042

For a discussion of the Company's decommissioning liability, see note 13 to the Interim Consolidated Financial Statements for the three months ended March 31, 2019.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Liquidity and capital resources

Share capital

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

Trading statistics	Prior quarter	Three months ended March 31 2019	Three months ended March 31 2018
High (CDN)	\$0.95	\$0.79	\$0.97
Low (CDN)	\$0.58	\$0.51	\$0.79
Average volume	109,546	118,193	153,497

The following table summarizes the outstanding common shares and options as at May 17, 2019, March 31, 2019 and December 31, 2018.

Outstanding as at:	May 17 2019	March 31 2019	December 31 2018
Common shares	204,723,041	204,723,041	204,723,041
Options (stock option plan)	2,115,000	2,115,000	2,115,000
Options (long-term incentive plan)	7,100,884	7,100,884	7,100,884

The following table summarizes the outstanding stock option plan options as at March 31, 2019:

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

Stock based compensation

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 15 to the Interim Consolidated Financial Statements.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Liquidity and capital resources (continued)

Capital resources

As at March 31, 2019 the Company had working capital of approximately US\$21.4 million. The Company expects to fund its 2019 capital program through funds generated from operations and cash on hand.

As at March 31, 2019, the Company had cash and cash equivalents of US\$11.4 million compared to US\$17.3 million as at December 31, 2018.

During the three months ended March 31, 2019 the Company had net cash outflows of US\$6.0 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 March 31, 2019, the Company had US\$21.7 million in trade and other receivables, compared to US\$23.4 million as at December 31, 2018. US\$8.6 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 recorded US\$3.0 million related to the joint venture partner account for the South Disouq and NW Gemsa concessions.

US\$3.0 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\$3.9 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\$1.6 million consist of US\$1.0 million for Goods and Services Tax ("GST")/Value Added Tax ("VAT") and US\$0.6 million for other items.

Subsequent to March 31, 2019 the Company collected US\$5.9 million of trade receivables from those outstanding at March 31, 2019: US\$4.7 million from EGPC and US\$1.2 million from third-party gas customers in Morocco. Of the US\$4.7 million collected from EGPC, US\$1.1 million was in cash and US\$3.6 million was offset against South Disouq drilling and development costs and amounts owing to joint venture partners.

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	March 31 2019	December 31 2018
Current assets		
Cash and cash equivalents	11,354	17,345
Trade and other receivables	21,723	24,324
Inventory	3,637	5,236
Total current assets	36,714	46,905
Current liabilities		
Trade and other payables	11,297	14,418
Deferred income	495	495
Decommissioning liability	1,125	1,125
Current income taxes	1,784	1,458
Lease liability	590	-
Total current liabilities	15,291	17,496
Working capital	21,423	29,409

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Liquidity and capital resources (continued)

Capital resources (continued)

The following table outlines the Company's sources and uses of cash for the three months ended March 31, 2019 and 2018:

US\$'000s	Three months ended March 31	
	2019	2018
Sources		
Operating cash flow before working capital movements	6,317	6,308
Changes in non-cash working capital	646	4,643
Effect of foreign exchange on cash and cash equivalents	118	327
Total sources	7,081	11,278
Uses		
Property, plant and equipment expenditures	(1,805)	(5,477)
Exploration and evaluation expenditures	(11,063)	(2,365)
Finance costs paid	(204)	(3)
Total uses	(13,072)	(7,845)
(Decrease)/increase in cash	(5,991)	3,433
Cash and cash equivalents at beginning of period	17,345	25,844
Cash and cash equivalents at end of period	11,354	29,277

Financial instruments

The Company is exposed to financial risks because of the nature of its business and the financial assets and liabilities 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 because of changes in commodity prices. Commodity prices for oil and natural gas are affected not only by 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.

At March 31, 2019 the Company did not have any outstanding derivatives in place.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Liquidity and capital resources (continued)

Financial instruments (continued)

Foreign currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting and functional currency of the Company is United States dollars ("US\$"). 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:

As at March 31, 2019	Total per FS ⁽¹⁾	US\$	EGP US\$ equivalent	MAD	GBP	Other
Cash and cash equivalents	11,354	5,227	1,024	3,258	1,763	82
Trade and other receivables ⁽²⁾	20,179	10,900	1,003	7,065	1,170	41
Trade and other payables	(11,297)	(4,109)	(1,221)	(3,866)	(1,799)	(302)
Current income taxes	(1,784)	-	(1,784)	-	-	-
Balance sheet exposure	18,452	12,018	(978)	6,457	1,134	(179)

(1) FS denotes Financial Statements.

(2) Excludes prepayments.

The average exchange rates during the three months ended March 31, 2019 and 2018 were 1 US\$ equals:

Average: Jan 1, 2019 to March 31, 2019

	USD/EGP	USD/GBP	USD/MAD
Period average	17.5407	0.7682	9.5613

Average: Jan 1, 2018 to March 31, 2018

	USD/EGP	USD/GBP	USD/MAD
Period average	17.6371	0.7188	9.1789

The exchange rates as at March 31, 2019 and 2018 were 1 US\$ equals:

Period end: March 31, 2019

	USD/EGP	USD/GBP	USD/MAD
Period average	17.2600	0.7678	9.6631

Period end: March 31, 2018

	USD/EGP	USD/GBP	USD/MAD
Period average	17.6249	0.7134	9.1977

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 office is in London, with G&A and other listing and regulatory costs paid in both jurisdictions.

As at March 31, 2019 and December 31, 2018 the Company's trade and other payables are as follows:

US\$'000s	Carrying amount	
	March 31 2019	December 31 2018
Trade payables	2,011	3,870
Accruals	4,247	3,747
Joint venture partners	3,482	5,409
Other payables	1,557	1,392
Total trade and other payables	11,297	14,418

For a discussion of the Company's trade and other payables, see note 11 to the Interim Consolidated Financial Statements for the three months ended March 31, 2019.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Liquidity and capital resources (continued)

Financial instruments (continued)

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 is as follows:

US\$'000s	Carrying amount	
	March 31 2019	December 31 2018
Cash and cash equivalents	11,354	17,345
Trade and other receivables ⁽¹⁾	20,179	23,689
Total	31,533	41,034

(1) Excludes prepayments of US\$1.5 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 (2018: US\$0.6 million)

Trade and other receivables:

All the Company's operations as at March 31, 2019 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.

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

US\$'000s	Carrying amount	
	March 31 2019	December 31 2018
Government of Egypt-controlled corporations	8,638	14,846
Government of Morocco-controlled corporations	2,969	3,053
Third-party gas customers	3,943	2,715
Joint venture partners	3,040	1,761
Other ⁽¹⁾	1,589	1,314
Total	20,179	23,689

(1) Excludes prepayments of US\$1.5 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 (2018: US\$0.6 million)

As at March 31, 2019 and December 31, 2018, the Company's trade and other receivables, excluding prepayments, are aged as follows:

US\$'000s	Carrying amount	
	March 31 2019	December 31 2018
Current (less than 90 days)	14,528	14,805
Past due (more than 90 days)	5,651	8,884
Total	20,179	23,689

For a discussion of the Company's trade and other receivables, see note 5a to the Interim Consolidated Financial Statements for the three months ended March 31, 2019.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Liquidity and capital resources (continued)

Financial instruments (continued)

Cash and cash equivalents:

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

Capital management:

The Company defines and computes its capital as follows:

US\$'000s	Carrying amount	
	March 31 2019	December 31 2018
Equity	116,491	116,039
Working capital ⁽¹⁾	(21,423)	(29,409)
Total capital	95,068	86,630

(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 and Annual MD&A for 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, 2019.

Further information on the accounting policies and estimates can be found in the notes to the Interim Consolidated Financial Statements and MD&A for the three months ended March 31, 2019.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the first three months of 2019.

Management's Discussion & Analysis

For the three months ended March 31, 2019

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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 months ended March 31, 2019

(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 months ended March 31, 2019

(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 March 31, 2019. 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 March 31, 2019.

Management's Discussion & Analysis

For the three months ended March 31, 2019

(prepared in US\$)

Summary of quarterly results

Fiscal year Financial US\$'000s	2019		2018			2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash, beginning of period	17,345	18,713	25,234	29,277	25,844	30,469	27,627	21,052
Cash, end of period	11,354	17,345	18,713	25,234	29,277	25,844	30,469	27,627
Working capital	21,423	29,409	33,190	36,355	43,091	46,725	58,397	43,048
Comprehensive income/(loss)	132	(4,029)	3,169	640	331	(2,621)	4,408	(427)
Net income/(loss) per share-basic	0.001	(0.020)	0.015	0.003	0.002	(0.013)	0.022	(0.005)
Capital expenditure	13,041	8,316	11,017	14,742	9,948	15,328	3,423	1,504
Total assets	137,630	138,107	146,239	143,419	140,497	141,057	138,898	132,766
Shareholders' equity	116,491	116,039	119,848	116,246	115,282	114,619	116,981	102,559
Common shares outstanding (000s)	204,723	204,723	204,706	204,493	204,493	204,493	204,459	186,900

Fiscal year Operational	2019		2018			2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
NW Gemsa oil sales (bbl/d)	1,586	1,808	1,987	1,665	1,507	1,710	1,893	1,832
Block-H Meseda production service fee (bbl/d)	826	864	802	706	558	561	551	623
Morocco gas sales (boe/d)	761	648	615	656	664	680	611	651
Other products sales (boe/d)	542	604	485	403	307	310	384	419
Total boe/d	3,715	3,924	3,889	3,430	3,036	3,261	3,439	3,525
NW Gemsa oil sales volumes (bbls)	142,768	166,296	182,803	151,520	135,630	157,302	174,202	166,693
Block-H Meseda production service fee volumes (bbls)	74,315	79,530	73,761	64,286	50,257	51,599	50,674	56,736
Morocco gas sales volumes (boe)	68,458	59,573	56,602	59,740	59,779	62,543	56,219	59,246
Other products sales volumes (boe)	48,791	55,564	44,575	36,681	27,646	28,550	35,404	38,143
Total sales and service fee volumes (boe)	334,332	360,963	357,741	312,227	273,312	299,994	316,499	320,818
Brent oil price (US\$/bbl)	63.02	67.75	75.18	74.53	66.86	61.52	52.07	49.68
West Gharib oil price (US\$/bbl)	56.03	60.09	65.36	63.99	58.75	53.59	44.48	41.50
Realized oil price (US\$/bbl)	58.22	62.77	70.76	68.41	62.81	57.77	48.28	45.56
Realized service fee (US\$/bbl)	47.58	51.34	55.50	54.37	50.00	44.11	36.41	33.98
Realised oil sales price and service fees	54.58	59.07	66.38	64.23	59.34	54.39	45.61	42.62
Realized Morocco gas price (US\$/mcf)	10.26	9.78	11.05	10.51	10.03	9.72	9.53	9.44
Royalties (US\$/boe)	11.99	13.53	16.88	14.90	13.92	9.89	11.94	10.97
Operating costs (US\$/boe)	10.09	9.40	9.45	10.15	7.30	8.42	8.44	9.22
Netback-(US\$/boe)	27.84	28.94	33.62	33.00	32.80	23.54	21.48	21.64