



Delivering results across our North African portfolio

SDX Energy Inc.
2017 Annual Report

Our Highlights 2017 Annual Report

Corporate and Financial

Reserves

- As at December 31, 2017 the Company's working interest share of audited 2P reserves was 13.5 mmboe⁽¹⁾. This represents a 45% increase on the combined 2P reserves of the Company and the Egyptian and Moroccan businesses of Circle Oil PLC ("Circle Oil") as at December 31, 2016. The Company's audited 2P reserves estimate has been audited in accordance with the COGE Handbook by ERC Equipoise Limited an independent qualified reserves evaluator and auditor.

SDX's key financial metrics for the 3 and 12 months ended December 31, 2017 and 2016 are:

US\$ million except per unit amounts	Three months ended		Twelve months ended	
	December 31 2017	December 31 2016	December 31 2017	December 31 2016
Net Revenues	11.0	5.4	39.2	12.9
Netback ⁽²⁾	8.5	3.6	28.9	7.6
Net realized average oil/service fees - US\$/barrel	54.39	36.60	46.70	31.51
Net realized average Morocco gas price - US\$/mcf	9.72	-	9.51	-
Depletion, depreciation and amortization ⁽³⁾	(4.8)	(0.8)	(17.8)	(3.3)
Non-cash exploration & eval'n write down	-	-	-	(28.4)
Non-cash impairment expense	-	(4.3)	-	(4.3)
Gain on acquisition	(4.7)	-	29.6	-
Total comprehensive income/(loss)	(2.6)	0.1	28.3	(28.0)
Net cash generated from operating activities	15.1	(1.7)	21.6	(1.9)
Cash and cash equivalents	25.8	4.7	25.8	4.7

(1) Using a conversion ratio of 5.8 Mcf:1 boe.

(2) Refer to "Non-IFRS Measures" section of this release below for details of Netback.

(3) Increased DD&A reflects the impact of the acquisition of Circle Oil's producing assets in Egypt and Morocco and the 8" Pipeline in Morocco.

- The above financial metrics for the three and twelve months ended December 31, 2017 reflect the impact of the acquisition of the Egyptian and Moroccan businesses of Circle Oil (the "Circle Acquisition") from January 27, 2017.
- The main components of SDX's comprehensive income of US\$28.3 million for twelve months ended December 31, 2017 are:
 - US\$28.9 million netback for the period;
 - US\$29.6 million gain on acquisition of the Egyptian and Moroccan businesses of Circle Oil;
 - US\$17.8 million of DD&A – (increased as a result of the Circle Acquisition from US\$3.3 million in twelve months ended December 31, 2016); and
 - US\$2.4 million of transaction and restructuring costs relating to the above acquisition.
- Netback for the twelve months December 31, 2017 was US\$28.9 million, up from US\$7.6 million for the twelve months to December 31, 2016, as the Company benefited from the high margin Moroccan business acquired from Circle Oil and a recovery in oil prices over the year.
- Cash position of US\$25.8 million as at December 31, 2017 reflects strong netbacks and a reduction in receivables of US\$4.9 million, which primarily came from Egyptian receivables inherited with the Circle Acquisition.
- Since December 31, 2017, a further US\$6.0 million has been received from backdated receivables which has helped the cash position to grow to US\$30.6m as at February 28, 2018. As economic conditions continue to improve in Egypt, the Company is hopeful that further meaningful reductions will be made to the Egyptian receivables position during 2018.
- US\$21.1 million of capital expenditure has been invested into the business during the 12 months ended December 31, 2017;
 - US\$13.9 million in Morocco, US\$12.8 million of which related to the ongoing nine well drilling programme and customer connection projects;
 - US\$3.2 million on the SD-1X discovery well and the 3D seismic programme at South Disouq;
 - US\$2.0 million in Meseda on the two successful Rabul exploration wells and a nine well workover programme covering pump and tubing maintenance and the Meseda facility upgrade; and
 - US\$2.0 million on the twelve well workover programme at North West Gemsa.

Operational Highlights

Production

- The Company's share of production from its operations for the twelve months ended December 31, 2017 was 3,237 barrels of oil equivalent per day (boepd) analysed as follows, and which includes production from the Circle Acquisition with effect from January 27, 2017;
 - North West Gemsa 2,046 boepd
 - Meseda 595 boepd
 - Morocco 596 boepd
- On a pro forma basis, assuming that the Circle Oil Acquisition had completed on January 1, 2017, the Company's share of production from its operations for the twelve months ended December 31, 2017 would have been 3,457 boepd analysed as follows;
 - North West Gemsa 2,220 boepd
 - Meseda 595 boepd
 - Morocco 642 boepd

Egypt

- In North West Gemsa, twelve successful well workovers were completed and the impact of these is now being realised as gross production in the concession is stabilising at approximately 4,400 boepd. Drilling has recommenced in 2018 with a two well program. The first of these wells is expected to complete in early Q2 with operations on the second well commencing immediately thereafter. The aim of these wells is to stabilise H2 2018 production at current rates.
- In Meseda, two successful exploration wells, Rabul-1 and Rabul-2 were drilled in 2017 and this has been followed in Q1 2018 with the successful appraisal well, Rabul-5. Rabul-1 encountered 14.5 feet of net heavy oil pay with an average porosity of 21.2% in the Yusr sand. Rabul-2 encountered 101.5 feet of net heavy oil pay, with an average porosity of 20%, across the Yusr and Bakr sands. Rabul-5 encountered 151 feet of net heavy oil pay, with an average porosity of 18% across the Yusr and Bakr formations. One further appraisal/development well will be drilled in 2018 to develop the Rabul discovery. During the year nine workovers, consisting of tubing and pump maintenance in existing wells aimed at ensuring future production uptime, were completed. Finally, the Company installed a new two-phase separator at the central processing facility, upgrading processing capacity from 10,000 bfpd to 20,000 bfpd. Additional pump capacity was also added to the facility to ensure that sufficient water volumes could be injected into the waterflood project.
- In South Disouq, the Company successfully drilled the SD-1X exploration well which found gas-bearing sands in the Abu Madi horizons, the well's primary target. The well flow tested at a surface constrained rate of 25.8 MMscfd of conventional natural gas and was subsequently completed. After the successful test, the Company and its partners completed a development plan for the area which was submitted to the Egyptian State Gas authority, EGAS, for approval. The plan consists of the drilling of two additional appraisal wells, the installation of a rented central processing facility and the laying of a 10-kilometre pipeline to the main export line. The Company plans to commence production, from the SD-1X discovery, at a gross plateau production rate of approximately 50 MMscfd of conventional natural gas.
- The SD-1X well also drilled into deeper, potentially oil-bearing intervals beneath the main objective where it encountered hydrocarbon shows. This deeper interval could not be logged and an additional well, currently planned for 2019, will be required to test this interval.
- At South Ramadan during the year, and in relation to the last remaining commitment on this concession, the final sub-surface technical work was completed in conjunction with a commercial evaluation of development options. The result of this work was the selection of an option that involves the drilling of a development well which is up-dip of one of the previous producing wells in the field. Depending on rig availability, the well will be drilled either early in Q2 2018 or late in Q3 2018. Upon the results of this well, the Company will determine how best to optimise its position in this concession.

Morocco

- The Company's Moroccan acreage consists of three concessions; Sebou, Lalla Mimouna and Gharb Centre, all of which are located in the Gharb Basin in northern Morocco. Sebou and Lalla Mimouna were obtained as part of the acquisition of Circle Oil and Gharb Centre was acquired directly from the Moroccan State on June 1, 2017.
- In September 2017, the Company commenced a nine well drilling programme covering six appraisal/development wells in Sebou, one appraisal/development well in Gharb Centre and two exploration wells in Lalla Mimouna.

Operational Highlights continued

Morocco continued

- The results of the well program to date are as follows with the Company achieving five successful wells from the seven that have been drilled, a better than 71% success rate;

Permit	Well Name	Result	Net Pay	Test Rate
Sebou	KSR-14	Gas Well	20.0m	6.40 MMscf/d
Sebou	KSR-15	Gas Well	17.2m	7.52 MMscf/d
Sebou	KSR-16	Gas Well	14.2m	8.43 MMscf/d
Gharb Centre	ELQ-1*	Uncommercial Discovery	2.0m	Not Tested
Sebou	ONZ-7**	Gas Well	5.0m	15.34 MMscf/d
Sebou	KSS-2***	Dry Hole	Nil	Not Tested
Sebou	SAH-2****	Gas Well	5.2m	13.45 MMscf/d

Well results announced *January 4, **January 15, ***February 21 and ****March 9, 2018

Disclosure clarification

Reference is made to the SDX December 31, 2017 Year End Reserves and Resources Audit Report ("the 2017 Reserves and Resources Audit Report"), prepared and audited in accordance with the COGE Handbook by ERC Equipoise Limited an independent, qualified reserves auditor, which shows that 38.7 bcf of gas and 0.201 million barrels of condensate have been classed as gross 2P Reserves in SDX's South Disouq Concession (SDX 55% Working Interest: 21.3 bcf of gas and 0.111 million barrels of condensate). Reference is also made to the SDX Press Release dated July 5, 2017 whereby, amongst other things, it was announced that SDX's South Disouq Concession had Gross Contingent Resources of 47.1 bcf of gas and 2.2 million barrels of condensate (SDX 55% Working Interest: 25.9 bcf of gas and 1.21 million barrels of condensate).

Notwithstanding that the 2017 Reserves and Resources Audit Report is now re-classifying the originally reported Contingent Resources as 2P Reserves, albeit with a lower recoverable volume, the Press Release of July 5, 2017 should have included some additional disclosure describing possible uncertainties as at that date that may have resulted in the Contingent Resources ultimately not being recovered/classed as 2P reserves. As at July 5, 2017, these uncertainties would have been focused on potential recoverable volumes, gas price, the cost to develop the required infrastructure (evacuation pipeline and gas processing facility) and operating costs. These issues have subsequently been considered and addressed in the 2017 Reserves and Resources Audit Report as part of the process of reclassifying the South Disouq Contingent Resources to 2P Reserves.

Outlook

Egypt

North West Gemsa (50% Working Interest)

- Targeting gross 2018 production of c.4,400 boepd, broadly similar to 2017. To achieve this, two wells will be drilled and seven worked over.
- The expected gross cost of the two wells, including processing facility tie-ins is US\$6.6 million with the seven workovers expected to cost gross US\$1.7 million.

Meseda (50% Working Interest)

- Targeting gross production of 3,800 bopd, a c.700 bopd increase on 2017's level. The increase will come from drilling four new wells in 2018, two of which will develop the Rabul discovery and two infill producers in the wider Meseda area.
- The Company also aims to replace up to five ESPs in the wider Meseda area.
- Gross Meseda capex in 2018 is expected to be approximately US\$6.0 million.

South Disouq (55% Working Interest)

- Up to four wells planned in 2018, two exploration wells (Ibn Yunus-1X and Kelvin-1X) and two development wells (SD-4X and SD-3X). These wells have an estimated gross capex cost of approximately US\$12.0 million.
- Upon success of SD-4X and SD-3X, SDX expects to construct the SD-1X processing facility together with a 10-kilometer pipeline connecting the processing facilities to the main export line. Gross capex is estimated at approximately US\$15.0 million, subject to completion of final tenders and contracts.

Outlook continued

- Ibn Yunus-1X and Kelvin-1X are targeting up to 150bcf of conventional natural gas in separate structures from the SD-1X discovery. If successful, volumes will be tied back to the SD-1X processing facility.
- Given the above, and assuming all necessary approvals are obtained, first gas is targeted in the second half of 2018, at an initial gross plateau production rate of approximately 50 MMscf/d of conventional natural gas expected from the three development wells in the SD-1X discovery structure. The gas price is still under negotiation.
- Annual opex, including processing facility rental cost, is predominantly fixed and estimated at approximately US\$6.0 million gross, subject to completion of final tenders and contracts.

South Ramadan (12.75% Working Interest)

- At South Ramadan, a development well which is up-dip from one of the previous producing wells in the field, will be drilled either early in Q2 2018 or late Q3 2018. The actual spud date of the well is dependent on rig availability. Total cost for the South Ramadan work programme in 2018 will be approximately US\$23.5 million, which includes some platform remediation work and a well work over, both of which are dependent on the success of the development well.

Morocco

Morocco (75% Working Interest)

- Given the recent drilling success, 2018 gross production is targeted to increase in line with new customer tie-ins. Depending on timing of tie-ins, SDX is targeting gross production of 8-10 MMscf/d of conventional natural gas by the end of 2018.
- SDX's nine well Moroccan drilling programme continues in 2018, with the tie-in of the most recent discovery, SAH-2 and the drilling of two exploration wells: LNB-1, which commenced drilling operations on March 20, 2018 and LMS-1 which will be drilled early in Q2 2018.
- Including SAH-2, the gross cost for the 2018 wells (six total), inclusive of customer tie-ins, and the payment of 2017 outstanding drilling payables is expected to be approximately US\$13.0 million.
- In addition, SDX plans to shoot 240km² of 3D seismic in its Rharb Centre concession at an estimated cost of US\$6.5 million.

Corporate

- Continue to minimise costs and crystallise synergies from the Circle Oil Acquisition; and
- As part of the Company's strategy it continues to review and explore opportunities to expand the asset base in the North Africa region, including through new licencing rounds and acquisitions.

Paul Welch, President & CEO of SDX Energy commented:

"2017 was an exceptional year for SDX, with the acquisition of Circle Oil's assets, enabling us to substantially increase production, and cash flow, over the course of the year.

We continued to see strong operational performance throughout the year across our portfolio. In North West Gemsa we are seeing the results of our twelve successful workovers, and in Meseda we successfully drilled two exploration wells in 2017 followed by the successful Rabul-5 appraisal well earlier this month. The remainder of 2018 will see a second appraisal well, Rabul-4, followed by two development wells on the Meseda area of the concession. Our nine well drilling programme in Morocco has seen five discoveries from seven wells drilled to date and we look forward to continuing this drilling success throughout the rest of 2018.

As a company, we continue to focus on low cost, high margin production, thereby creating further value for our shareholders. Our strong funding position means we are well placed to capitalise on any suitable, value enhancing asset opportunities that may arise going forward."

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Key Financial & Operating Highlights

Financial Statements

US\$000's except per unit amounts	Prior Quarter	Three months ended December 31		Twelve months ended December 31	
		2017	2016	2017	2016
Financial					
Gross Revenues ⁽¹⁾	13,902	13,972	8,436	52,493	18,362
Royalties	(3,778)	(2,968)	(3,082)	(13,327)	(5,448)
Net Revenues	10,124	11,004	5,354	39,166	12,914
Operating costs	(2,672)	(2,526)	(1,752)	(10,254)	(5,282)
Netback	7,452	8,478	3,602	28,912	7,632
Total comprehensive (loss)/income	4,408	(2,621)	(2,059)	28,307	(27,963)
Net income/(loss) per share - basic	0.022	(0.010)	(0.03)	0.156	(0.39)
Cash, end of period	30,469	25,844	4,725	25,844	4,725
Working capital (excluding cash)	27,928	20,881	7,098	20,881	7,098
Capital expenditures	3,423	15,302	856	21,040	13,339
Total assets	138,898	141,057	41,617	141,057	41,617
Shareholders' equity	116,981	114,619	37,264	114,619	37,264
Common shares outstanding (000's)	204,459	204,493	79,844	204,493	79,844
Operational					
NW Gemsa oil sales (bbl/d)	1,893	1,710	468	1,733	534
Block-H Meseda production service fee (bbl/d)	551	561	679	595	662
Morocco gas sales (boe/d)	611	680	-	596	-
Other products sales (boe/d) ⁽²⁾	384	310	3,166	313	796
Total sales volumes (boe/d)	3,439	3,261	4,313	3,237	1,192
Realized oil price (US\$/bbl)	48.28	57.77	44.56	50.02	38.00
Realized service fee (US\$/bbl)	36.41	44.11	31.12	37.05	26.26
Realized oil sales price and service fees (\$/bbl)	45.61	54.39	36.60	46.70	31.51
Realized Morocco gas price (US\$/mcf)	9.53	9.72	-	9.51	-
Royalties (\$/bbl)	11.94	9.89	6.33	11.28	7.47
Operating costs (\$/bbl)	8.44	8.42	4.41	8.68	7.25
Netback (\$/bbl)	23.54	28.26	9.08	24.47	10.47

(1) Net Revenues for the 3 and 12 months ended 31 December 2016 includes US\$2.3 MM relating to gas and natural gas liquids revenue relating to the period October 1, 2013 to December 31, 2016. This revenue had previously not been recognised due to uncertainties relating to entitlement and pricing which have now been resolved. US\$1.8 MM relates to the period October 1, 2013 to December 31, 2015 and US\$0.5MM relates to the 12 months ended December 31, 2016.

(2) Average daily natural gas and natural gas liquids sales relating to the period October 1, 2013 to December 31, 2016 and recognised in the 3 months to December 31, 2016 equated to 796 and 3,166 barrels of oil equivalent ("BOEP/D") for the 12 and 3 months to December 31, 2016 respectively. Out of the 796 BOEP/D, 130 BOE/D was actually generated in the 12 months to December 31, 2016.

Onshore expertise

South Disouq: completed 3D seismic acquisition ahead of schedule and under budget. Given exploration drilling success, we anticipate a rapid increase in our high margin production.

Production

8,387

boe/d

Combined Egyptian daily average gross production for the twelve months to December 31, 2017



Reserves

25.7

mmboe

Asset reserves (gross) - North West Gemsa, Meseda, South Disouq and Morocco at December 31, 2017



Where We Operate

Egypt

SDX Energy is actively involved in exploration and development activities in Egypt's Eastern Desert, Nile Delta, and Gulf of Suez basins.

The Eastern Desert and Gulf of Suez areas account for the bulk of Egypt's historical oil production. These two areas are geologically related and expertise acquired in one translates across to the other. The Nile Delta area offers exciting exploration opportunities in a prolific and proven hydrocarbon system with multiple productive horizons.

1,405km²

Combined asset area

4

Concessions



Where We Operate

Morocco

Sebou, a 135km² concession and Lalla Mimouna, a 2,211km² concession are both located in the Gharb Basin of northern Morocco. These concessions were acquired by SDX in January 2017 from Circle Oil plc.

A further concession, Gharb Centre (1,362 km²), was awarded to SDX during Q2 2017.

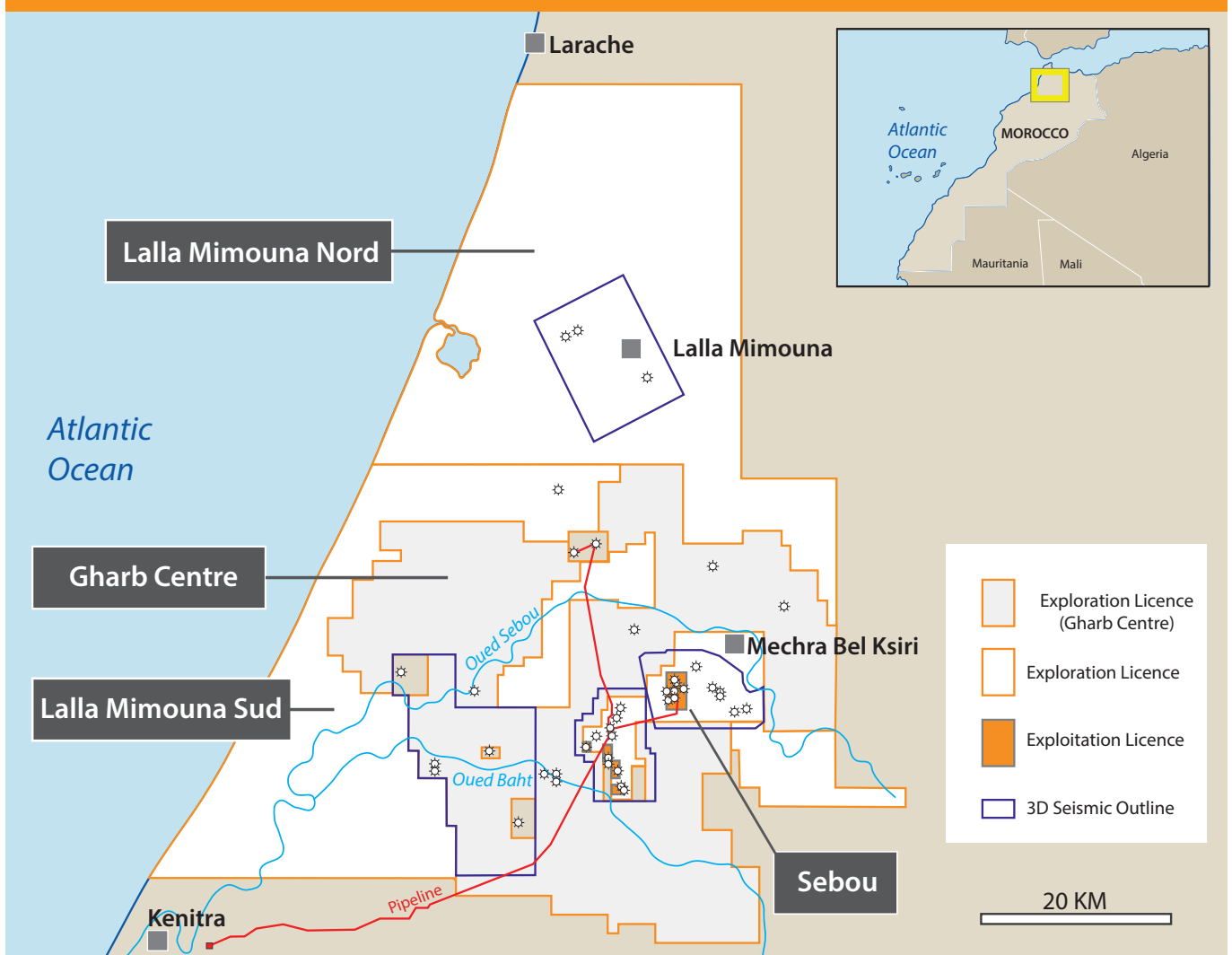
3,708km²

Combined asset area

3

Concessions

75% working interest in each



Chairman's Statement

2017 was a transformational year for SDX as we continued to deliver on our strategy of creating value through high margin production growth across our expanding portfolio.

Having stated our ambitions to grow, not only through the development of our original assets, but also via acquisition, we were pleased to begin 2017 with the completion of the acquisition of Circle Oil plc's assets in Egypt and Morocco. The Egyptian asset was highly complementary to our existing asset base in country and Morocco was a very attractive new country entry, in a region that the team knew well and had enjoyed success in previously. Most importantly, the acquisition demonstrated our ability to identify and transact highly value accretive opportunities.

Over the course of 2017 your Company has been moving at a fast pace. SDX is a highly ambitious business and the breadth and depth of our operational progress over the course of the year clearly shows our intent.

I am pleased to report that our operations remained safe throughout the year with zero Lost Time Incidents ("LTIs") reported. The welfare of our people and those working with us and living around our areas of operations is of the highest importance and we know that there is no room for complacency in this regard.

As you will read throughout the report, the operational achievements throughout 2017 have been numerous. The successful drilling campaign with the SD-1X well at South Disouq in our Egyptian portfolio was a clear highlight of 2017. This Egypt workstream, and the progress in meeting the strong local gas demand, was only one part of our determined operational activity. The subsequent development and appraisal drilling in Morocco towards the end of the reporting period served as a fitting close to a very significant year in the development of our Company. Whilst the campaign in Morocco is ongoing, the track record to date of success with the drill bit is very encouraging indeed and bodes well for the future. The progress that we have made has been highly pleasing and it is our clear intention to maintain this momentum through 2018 and beyond.

We have a solid financial position and were pleased to be able to access an additional \$10 million by way of a placing in September. This has allowed us to commit more resources towards capturing the opportunities presented by our drilling campaigns, and their ability to rapidly create value. We have a portfolio which allows us to deliver upon our high margin growth strategy, and we have the team in place to deliver.

On behalf of the board I would like to thank all of our shareholders for their support throughout the year. In addition, our staff have shown the highest levels of dedication and commitment throughout a very active twelve months. I thank them sincerely for their indefatigable spirit. We are grateful to the governments of Egypt and Morocco for their partnership and support, and we are proud to make a meaningful contribution to the energy supply of both countries, as well as making a positive economic and social impact. We look forward to continuing to work for the benefit of all of our stakeholders over the course of 2018 and beyond.

Michael Doyle
Non-Executive Chairman

Chief Executive's Statement

2017 was a pivotal year for SDX Energy, which saw the Company execute a highly value accretive acquisition of a portfolio of oil and gas production and exploration assets in Egypt and Morocco, from Circle Oil plc. This was funded by an oversubscribed \$40 million share placing with new and existing investors. The transaction increased SDX's total net working interest production by over 200 percent to approximately 4,705 barrels of oil per day ("boep/d"), and its net working interest 2P reserves by 64 percent to 12.03 million barrels of oil equivalent ("MMboe").

We also enjoyed significant exploration success throughout 2017 and finished the year with a 100 percent success rate with the drill bit. Our most significant discovery, during the period, was at our SD-1X prospect at the South Disouq concession in the Nile Delta area of Egypt. In addition to a significant natural gas discovery we also encountered a working petroleum system within the deeper sections of the target. Much of our focus for the remainder of 2017 was on optimising the development plan, putting together the appraisal plan and tendering for all the necessary surface equipment. The last part of the activity, which is still ongoing, is getting the development plan and gas sales contract approved by the authority which we anticipate will conclude in the first half of 2018. We plan to drill two development wells in the SD-1X discovery during 2018 together with two exploration wells, Ibn Yunus-1X and Kelvin-1X, which are targeting up to 150bcf and, if successful, will be tied back to the SD-1X processing facility. Success in these upcoming wells will allow us to double our planned plateau gas production rate from the SD-1x discovery area from 50-100MMscfd.

In September, we successfully raised US\$10 million in an oversubscribed placing, done at the closing mid-market price. The placing enabled us to accelerate the exploration and appraisal programme at South Disouq and the development programme across our Moroccan acreage, whilst retaining a prudent level of liquidity.

I'm pleased to report that the Company remains in strong financial standing and as at February 28, 2018 has a robust liquidity position of US\$30.6 million, with no debt. The acquisition of Circle Oil's assets began to bear fruit in the second half of 2017, with net revenue increasing by 204% by December 31, 2017. By focusing on high margin low cost production, we generated US\$21.6 million of cash from operating activities as at December 31, 2017 which was used to finance our development and exploration activities across the portfolio.

We commenced our nine well drilling programme in Morocco in September 2017, which has yielded five discoveries from seven wells drilled to date. The programme is on track to allow us to deliver on our target of significantly increasing local gas sales volumes in Morocco. As a result we anticipate increasing our gross production of conventional natural gas in Morocco to 8-10mmscf/d, by the end of 2018.

In summary, 2017 was a year of successful operational delivery combined with strong capital discipline and a strict focus on costs. We maintained our low operating costs of sub US\$10 per barrel production, whilst increasing the Company's net production profile from 1,196 boep/d to 3,237 boep/d (3,457 boep/d had the acquisition of the Egyptian and Moroccan businesses of Circle Oil completed on January 1, 2017). We remain firmly committed to our growth strategy and will continue to grow our production profile via portfolio development and acquisitions, if value accretive for shareholders.

I would like to finish by thanking our shareholders, the staff, Board of Directors' and the wider SDX stakeholders for all their help and assistance during what was a transformational period for the Company.

Paul Welch
Chief Executive Officer

Strategy overview

SDX Energy's strategy is simple: "Create value through low cost production growth".



Deliver increased production



Increase value through exploration



Growth through low cost asset acquisition

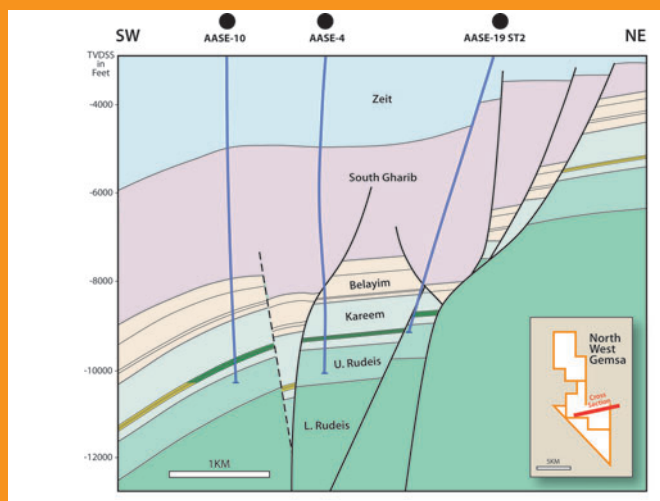
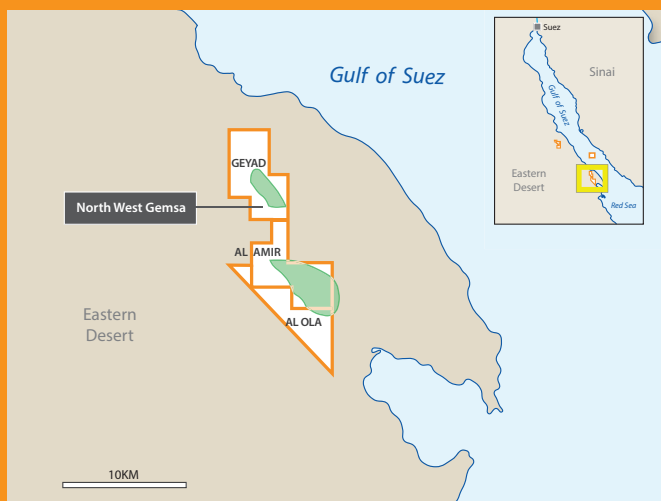
Review of Operations

North West Gemsa concession Egypt Eastern Desert

The North West Gemsa concession is located in the Eastern Desert, 300km southeast of Cairo.

83km²

Concession area



The concession is 83 km² in area and includes three fields; Geyad, Al Amir SE, and Al Ola (the southern extension of Al Amir SE). All the fields are covered by development leases.

The fields are operated by PetroAmir, a joint operating company between the partners and Ganoub El Wadi (a subsidiary of the Egyptian General Petroleum Corporation). On January 27, 2017 SDX Energy acquired Circle Oil plc's interests in the North West Gemsa Concession, increasing SDX Energy's interest in the concession from 10% to 50% at present. Zenhua Oil, the operator has the remaining 50%. The Al Amir SE and Geyad fields produce light oil (40-42° API oil; sold at Brent less c10%) from two reservoir intervals; the Miocene-aged Shagar and Rahmi sandstones of the Kareem Formation. Production for the twelve months ended December 31, 2017 averaged 4,440 boep/d (2,220 boep/d net to SDX at a 50% interest level and assuming that the Circle Oil acquisition completed on January 1, 2016) from the Al Amir SE and Geyad fields.

2017 Activity

In North West Gemsa, the operator completed a 12 well workover program only, with no new wells being drilled in 2017. The objective of the workover program was to try and maintain production at 4,500 boep/d. The workover program was completed and after which the work-over rig was released.

For more information please visit our website:
www.sdxenergy.com

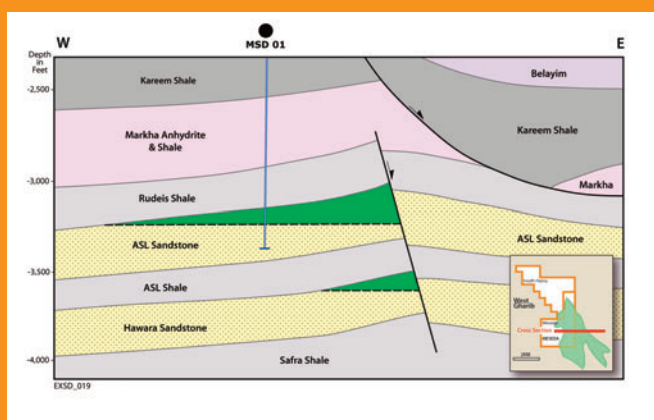
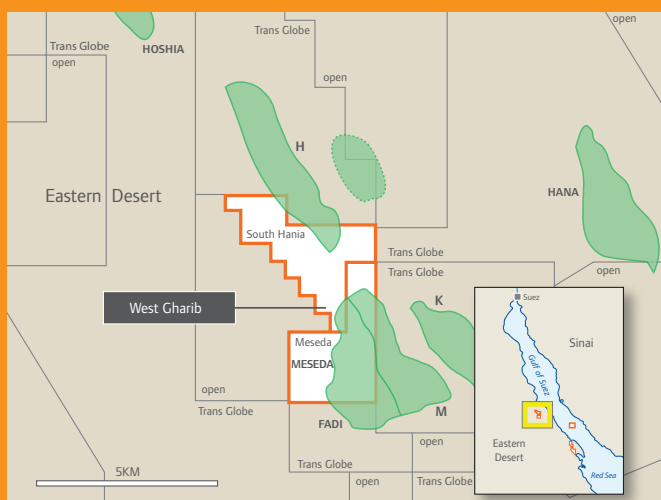
Review of Operations

Block-H Meseda concession Egypt Eastern Desert

Block-H is located in the Eastern Desert, 230km southeast of Cairo.

22km²

Concession area



The block is 22 km² in area and is currently producing from the Meseda field (which is covered by the Meseda-H development lease). The field is covered by a production service agreement, which allows for lower cost operations than the traditional joint venture structure. SDX Energy has a 50% working interest, with Dublin International Petroleum, the operator, holding the remaining 50% working interest.

The Meseda field produces from the high-quality Miocene-aged Asl sands of the Rudeis Formation. Production for 2017 from Meseda field averaged 3,091 bopd (595 bopd net to SDX Energy) of 16-18° API oil.

2017 Activity

In 2017, significant activity was undertaken in the field on both the surface and the sub-surface. The surface activity consisted of upgrading the treatment capacity at the central processing facility from 10,000 barrels of fluid per day (“bfpd”) to 20,000 bfpd with the installation of a new two-phase separator. Additional pump capacity was also added to ensure that sufficient water volumes could be injected into the waterflood. Throughout the year the operator completed nine workovers which consisted of tubing and pump maintenance in the existing wells aimed at ensuring future production uptime.

During 2017 the Company also participated in the drilling of two exploration wells, Rabul 1 and 2 which were the final commitment wells on the concession. Rabul 1 encountered 14.5 feet of net heavy oil pay with an average porosity of 21.2% in the Yusr and was completed as an oil producer in the Yusr. Rabul 2, encountered approximately 101.5 feet of net heavy oil pay across the Yusr and Bakr sand formations, with an average porosity of 20%. It was subsequently completed as an oil producer in the Bakr. The company then participated with the operator in completing a development plan for the newly discovered area that was submitted and approved by the authority. The development plan consists of two additional development well locations, surface facilities and a short flowline to connect the Rabul area to the main Meseda Central Processing Facility (“CPF”). The surface facility has been completed and the two development locations will be drilled beginning in Q1 2018 with Rabul 5 followed immediately by Rabul 4. All wells are expected to be completed as oil producers in both the Yusr and Bakr formations

For more information please visit our website: www.sdxenergy.com

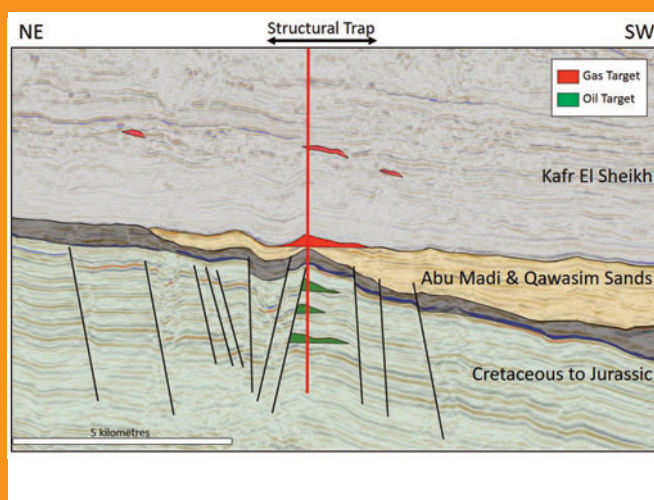
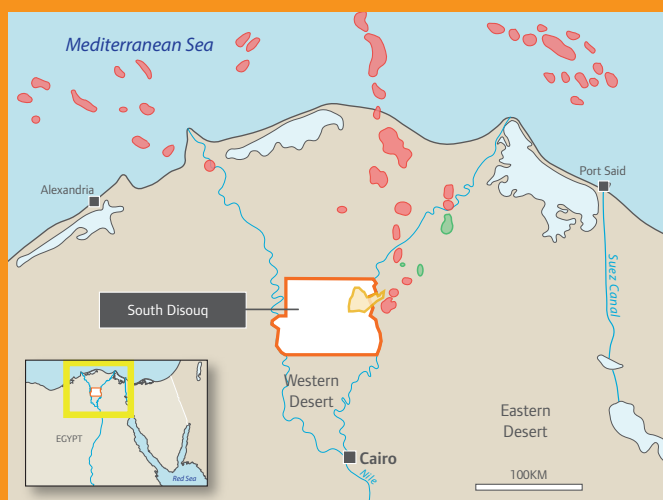
Review of Operations

South Disouq concession Egypt Nile Delta

South Disouq is a 1,275km² concession located 65km north of Cairo in the Nile Delta region.

1,275km²

Concession area



The concession is on trend with numerous, prolific gas fields in the Abu Madi Formation. SDX Energy holds a 55% interest and operates the concession, with its partner, IPR, holding the remaining 45% interest.

2017 Activity

During the year the Company drilled a successful exploration well, SD-1X, in the concession. The well found gas bearing sands in the Abu Madi horizons, the primary target. The well also drilled into deeper potentially oil bearing intervals beneath the main objective where it encountered hydrocarbon shows. The deeper intervals could not be logged and the results were considered inconclusive and an additional well will be required to test this interval.

The SD-1X well was subsequently completed in the Abu Madi and flow tested at a surface constrained rate of 25.8 MMscfd. After the successful test the Company and its partners completed a development plan for the area which was submitted to the authority, EGAS, for approval. The plan consists of the drilling of two additional appraisal wells, the installation of a rented central processing facility and the laying of a 10km pipeline to the main export line out of the area. Concurrent with the development plan, the Company also went to market with tenders for a drilling rig, the construction of the 10km pipeline and the procurement of a rented central processing facility. The Company plans to start up production, from the SD-1X discovery, at a plateau production rate of approximately 50 MMscfd.

The tenders were evaluated and the rig tender awarded to Sin-Tharwa for a 4 well program beginning in Q1 2018. The program consists of two appraisal wells in the SD-1X structure and two additional exploration wells in structures that offset the initial discovery. The other tenders are still being evaluated and are expected to be awarded at the end of Q1 or early Q2 2018.



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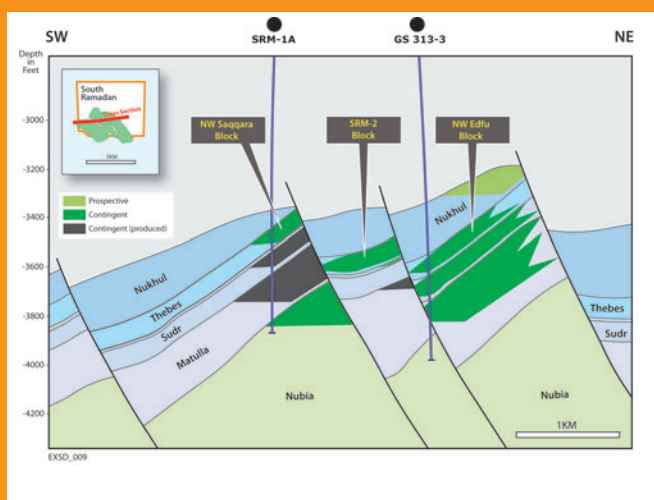
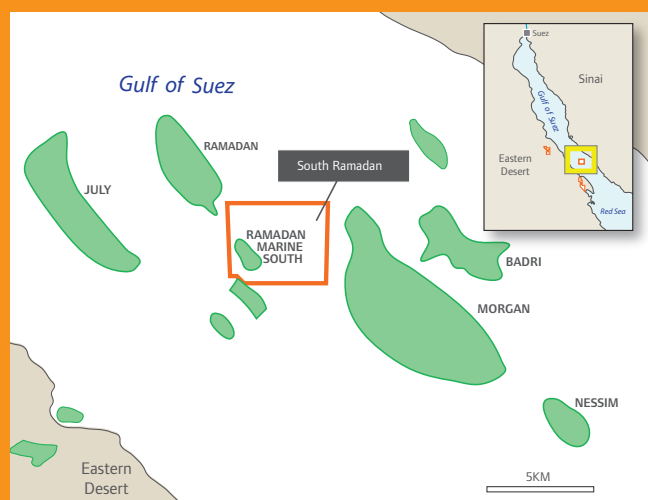
Review of Operations

South Ramadan concession Egypt Gulf of Suez

The 26km² South Ramadan development concession is located in the offshore Gulf of Suez, between the prolific Ramadan and Morgan fields.

26km²

Concession area



SDX Energy holds a 12.75% working interest, with Pico holding 37.25%, and GPC holding the remaining 50%. The concession is considered prospective for the Lower Cretaceous-aged Nubia sandstone and has historical production from the Eocene-aged Thebes and Upper Cretaceous-aged Matulla formations.

2017 Activity

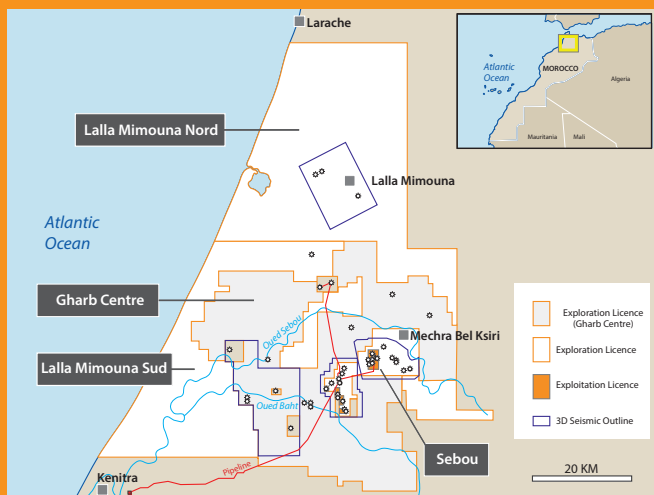
During the year, the partners sought and obtained an extension to the drilling commitment until October of 2018. The final sub-surface technical work was completed along with a commercial evaluation. The commercial evaluation looked at various options for development and the partners selected an option that involved the drilling of a development well up-dip of one of the previous producers in the field. This option was then submitted and approved by the authority. The operator, Pico, then undertook a tendering exercise for all the related drilling activities and services which is currently being evaluated. The well will be drilled either early in the 2nd quarter or late in the 3rd quarter of 2018 dependent upon rig availability.

For more information please visit our website:
www.sdenergy.com

Review of Operations

Sebou, Lalla Mimouna & Gharb Centre concessions Morocco Gharb basin

The Company's Moroccan acreage consists of three concessions all of which are located in the Gharb Basin in northern Morocco. The initial Moroccan acreage was obtained as part of the acquisition of Circle Oil's assets in late January of 2017. At the time of the acquisition the acreage consisted of the Sebou and Lalla Mimouna concessions with the Gharb Centre concession being acquired directly from the State in June 2017.



135km²

Sebou concession area

2,211km²

Lalla Mimouna concession area

1,362km²

Gharb Centre concession area

Sebou

The Sebou concession is a 135km² production concession with several smaller producing leases contained within it:

- Gueddari NW expiry: February 2, 2019
- Gueddari Sud expiry: January 18, 2020
- Sidi Al Harati SW expiry: September 20, 2023
- Ksiri Central expiry: January 18, 2025

In April of 2017, SDX renewed the exploration area within the Sebou permit for a period of eight years, with SDX committing to drill three exploration wells within the first four-year period.

Lalla Mimouna

The Lalla Mimouna concession is a 2,211km² permit that has had a very limited amount of exploration activity undertaken on it. Circle Oil had previously acquired approximately 140 km² of 3D seismic on the concession and drilled two unsuccessful wells. The Company is planning to drill two additional exploration wells in late Q1/early Q2 2018. In Q1 2018 the permit expiry date was extended to July 2018.

Gharb Centre

The permit was acquired on June 1, 2017 for a period of eight years. It covers an area of over 1362 km², with a firm commitment to acquire 200km² of 3D seismic and to drill two exploration wells within the first four-year period.

2017 Activity to date

During the year the Company commenced its exploration and development program in Morocco. The KSR-14 well was spud on the 18th of September which was the first well of a nine well drilling programme on the Company's Sebou, Gharb Centre and Lalla Mimouna permits. From the commencement of the drilling programme the Company was involved in the drilling of seven wells, the results of which are as follows:

Permit	Well Name	Result	Net Pay	Test Rate
Sebou	KSR-14	Gas Well	20.0m	6.40 MMscf/d
Sebou	KSR-15	Gas Well	17.2m	7.52 MMscf/d
Sebou	KSR-16	Gas Well	14.2m	8.43 MMscf/d
Gharb Centre	ELQ-1*	Uncommercial	2.0m	Not Tested
		Discovery		
Sebou	ONZ-7**	Gas Well	5.0m	15.34 MMscf/d
Sebou	KSS-2***	Dry Hole	Nil	Not Tested
Sebou	SAH-2****	Gas Well	5.2m	13.45 MMscf/d

Well results announced *January 4, **January 15, ***February 21 and ****March 9, 2018

The drilling program will conclude in early Q2 2018 with the drilling of two exploration wells in the Lalla Mimouna permit. In addition to the drilling activity the Company completed a tendering exercise for a 240 km² 3D seismic survey in its Gharb Centre permit. The 3D seismic survey acquisition was awarded in November 2017 with the survey start-up planned for late Q2 2018.



For more information please visit our website:
www.sdxenergy.com

Reserves Summary

Reserve estimates have been calculated in compliance with the National Instrument 51-101 Standards of Disclosure (“NI 51-101”). Under NI 51-101, proved reserves are defined as reserves that can be estimated with a high degree of certainty to be recoverable with a target of a 90 percent probability that the actual reserves recovered over time will equal or exceed proved reserve estimates, while probable reserves are defined as having an equal (50%) probability that the actual reserves recovered will equal or exceed the proved and probable reserve estimates. In accordance with NI 51-101, proved undeveloped reserves have been recognized in cases where plans are in place to bring the reserves on production within a short, well defined time frame. Proved undeveloped reserves often involve infill drilling into existing pools. Of the net present value of the Company’s reserves, 100 percent were evaluated by an independent third party engineer, ERC Equipoise, London UK (“ERCE”) in their report dated 20 March 2018.

Reserve Definitions:

- Proved reserves are those that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves.
- Proved Undeveloped reserves have been recognized in cases where plans are in place to bring the reserves on production within a short, well defined time frame. Proved Undeveloped reserves often involve infill drilling into existing pools.
- Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of estimated proved plus probable.
- Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

The disclosures required in accordance with National Instrument 51-101 of the Canadian Securities Administrators are available within ERCE’s report dated 20 March 2018 filed on the SEDAR website at www.sedar.com.

Reconciliation of gross reserves as at December 31, 2017 Forecast prices and costs

	Light and Medium Oil (Mbbbl)			Heavy Oil (Mbbbl)			Conv. Natural Gas (MMcf)			Natural Gas Liquids (Mbbbl)		
	Gross ⁽²⁾	Gross ⁽²⁾	Total Gross ⁽²⁾	Gross ⁽²⁾	Gross ⁽²⁾	Total Gross ⁽²⁾	Gross ⁽²⁾	Gross ⁽²⁾	Total Gross ⁽²⁾	Gross ⁽²⁾	Gross ⁽²⁾	Total Gross ⁽²⁾
	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable
Opening Balance ⁽¹⁾ December 31, 2016	331	172	504	4,125	1,325	5,450	303	162	465	6	5	11
Plus:												
Extensions	-	-	-	-	-	-	-	-	-	-	-	-
Improved recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical revisions	779	613	1,391	(98)	(261)	(359)	1,156	(1,355)	(199)	28	10	38
Discoveries	-	-	-	438	367	805	15,171	8,130	23,300	56	54	111
Acquisitions	1,271	692	1,963	-	-	-	3,409	3,043	6,452	24	20	44
Less:												
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	666	-	666	682	-	682	1,800	-	1,800	18	-	18
Ending Balance December 31, 2017	1,716	1,477	3,193	3,783	1,431	5,214	18,239	9,980	28,219	97	89	185

(1) Opening balances are from the Gaffney Cline & Associates reserve report as of December 31, 2016.

(2) Gross reserves are based on the Company working interest share of the property gross reserves.

The technical revisions in the Light and Medium Oil category reflect the impact of technical studies carried out by the field operator and SDX on the recoverability potential of North West Gemsa. In the Heavy Oil category, the technical revision reflects a minor reduction on the impact of the waterflood program in Meseda. The technical revision in the Conventional Natural Gas category is the normal reclassification between probable and proved categories in the producing North West Gemsa and Morocco assets.

Reserves Summary

Summary of oil and gas reserves at December 31, 2017

	Company's Interest in Reserves ⁽¹⁾							
	Light & Medium Oil (Mbbbl)		Heavy Oil (Mbbbl)		Conv. Natural gas (MMcf)		Natural Gas Liquids (Mbbbl)	
	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾
Egypt								
Proved developed producing	830	427	3,530	1,352	581	315	19	10
Proved developed non-producing	587	302	-	-	411	223	14	7
Proved undeveloped	299	154	254	96	14,163	7,991	63	37
Total Proved Reserves	1,716	883	3,783	1,448	15,154	8,529	97	54
Probable	1,477	760	1,431	546	8,362	4,698	89	50
Total Proved Plus Probable Reserves	3,193	1,643	5,214	1,994	23,516	13,226	185	104
Possible	2,000	1,029	2,237	850	11,547	6,488	129	72
Total Proved Plus Probable Plus Possible Reserves	5,193	2,673	7,451	2,844	35,063	19,714	314	176
Morocco								
Proved developed producing	-	-	-	-	1,892	1,803	-	-
Proved developed non-producing	-	-	-	-	1,192	1,130	-	-
Proved undeveloped	-	-	-	-	-	-	-	-
Total Proved Reserves	-	-	-	-	3,084	2,933	-	-
Probable	-	-	-	-	1,618	1,537	-	-
Total Proved Plus Probable Reserves	-	-	-	-	4,703	4,469	-	-
Possible	-	-	-	-	2,613	2,479	-	-
Total Proved Plus Probable Plus Possible Reserves	-	-	-	-	7,316	6,948	-	-
Total								
Proved developed producing	830	427	3,530	1,352	2,473	2,118	19	10
Proved developed non-producing	587	302	-	-	1,603	1,352	14	7
Proved undeveloped	299	154	254	96	14,163	7,991	63	37
Total Proved Reserves	1,716	883	3,783	1,448	18,239	11,461	97	54
Probable	1,477	760	1,431	546	9,980	6,234	89	50
Total Proved Plus Probable Reserves	3,193	1,643	5,214	1,994	28,219	17,696	185	104
Possible	2,000	1,029	2,237	850	14,160	8,967	129	72
Total Proved Plus Probable Plus Possible Reserves	5,193	2,673	7,451	2,844	42,378	26,662	314	176

(1) Totals may not add due to rounding.

(2) The definitions of the various categories of reserves and expenditures are those set out in NI 51-101.

(3) "Gross" reserves refer to SDX's working interest share before deducting royalties and are based on their working interest share of the property gross resources.

(4) "Net" reserves refer to the gross reserves less royalties in Morocco and either the service fee or total cost and profit revenues in Egypt. Note, as the Egyptian government pays income taxes on behalf of SDX out of the government's profit revenue share, the net reserves were based on the effective pre-tax profit revenues by adjusting for the tax rate.

Reserves Summary

Summary of net present values of future net revenues as of December 31, 2017 Forecast prices and costs (in US\$ millions)

	Net Present Values of Future Net Revenue ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾				
	After Income Taxes Discounted at				
	0%	5%	10%	15%	20%
	(US MM\$)	(US MM\$)	(US MM\$)	(US MM\$)	(US MM\$)
Egypt					
Proved developed producing	53	44	38	34	30
Proved developed non-producing	5	5	5	4	4
Proved undeveloped	6	5	5	4	3
Total Proved Reserves	65	55	47	42	37
Probable	53	42	35	30	26
Total Proved Plus Probable Reserves	118	97	82	71	63
Possible	85	67	54	45	38
Total Proved Plus Probable Plus Possible Reserves	203	164	136	116	101
Morocco					
Proved developed producing	14	13	13	13	12
Proved developed non-producing	10	9	8	7	7
Proved undeveloped	-	-	-	-	-
Total Proved Reserves	23	22	21	20	19
Probable	9	8	7	7	6
Total Proved Plus Probable Reserves	38	35	33	30	29
Possible	8	7	6	5	4
Total Proved Plus Probable Plus Possible Reserves	57	51	47	42	39
Total					
Proved developed producing	67	58	51	46	43
Proved developed non-producing	15	14	13	12	11
Proved undeveloped	6	5	5	4	3
Total proved reserves	88	77	68	62	56
Probable	62	50	42	36	31
Total Proved Plus Probable Reserves	156	132	115	102	91
Possible	94	74	60	50	42
Total Proved Plus Probable Plus Possible Reserves	261	215	183	158	140

(1) Based on the Company working interest.

(2) Totals may not add due to rounding.

(3) The definitions of the various categories of reserves and expenditures are those set out in NI 51-101. Based on forecast prices and costs at January 1, 2018.

(4) Interest expenses and corporate overhead, etc. were not included.

(5) The net present values may not necessarily represent the fair market value for reserves.

(6) In Egypt the government pay income taxes on behalf of SDX out of the government's profit revenue share and as such the before and after tax are identical.

(7) Unit values are calculated using estimated net present value of future net revenue before income taxes using a discount rate of 10% and the Company net reserves.

(8) Assumes 6 Mcf are equivalent to 1 bbl.

Board of Directors

Michael Doyle

Non-Executive Chairman

Mr Doyle is a Professional Geophysicist and a Certified Corporate Director with more than 35 years industry experience. Mr Doyle is a principal of privately held CanPetro International Ltd and its affiliates. He has been a director of Equal Energy Ltd since 1997.

Mr Doyle was previously a principal and Chief Executive Officer of Petrel Robertson Ltd where he was responsible for providing advice and project management to clients throughout the world. Prior to that, he held a variety of exploration positions at Dome Petroleum and Amoco Canada. Mr Doyle holds a Bachelor of Science (Maths and Physics) from University of Victoria.

Mr Doyle was a founding director and Chairman of Madison PetroGas from its inception in 2003.

Paul Welch

President, Chief Executive Officer and Director

Mr Welch is an international energy executive with over 25 years of industry experience having worked for Shell Oil Company and several large independents including Hunt Oil Company, Pioneer Natural Resources and most recently as CEO of AIM listed explorer Chariot Oil and Gas.

Mr Welch graduated from the Colorado School of Mines with both a Bachelor and Master's degrees in Petroleum Engineering. He also holds an MBA in Finance from the Southern Methodist University in Dallas, Texas. Mr Welch was appointed CEO of Sea Dragon Energy in April 2013 and became a CEO of SDX Energy following the merger with Madison PetroGas in October 2015.

David Mitchell

Non-Executive Director

Mr Mitchell is a successful oil and gas executive with more than 35 years proven track record in the international arena, including with BP and Nexen.

During this time, Mr Mitchell discovered and built projects with his teams in the Middle East, West Africa, Latin America and the North Sea. He has lived and worked in a number of countries including a year with BP Egypt. Mr Mitchell received his BSc Honours, Geology from the University of London and his MPhil Mining Engineering from the University of Nottingham, UK.

Mr Mitchell was appointed CEO of Madison PetroGas on joining in 2008, building the company prior to the merger with Sea Dragon Energy.

David Richards

Non-Executive Director

Mr. Richards is a Fellow of the Institute of Chartered Accountants of Alberta. He founded Network Capital Inc., a successful Calgary based investment management company focused on private equity, in 1997 and served as President and Managing Director until June 30, 2016.

Mr Richards formerly served as a senior tax partner with both PricewaterhouseCoopers and Arthur Andersen and Co. He is a Past President of the Alberta Chamber of Commerce and a past Vice President of the Calgary Chamber of Commerce. Mr Richards is currently a director of Standard Exploration Ltd. Previous public board experience includes Boardwalk Equities, Forte Energy and Bonnetts Energy Services Trust.

Mark Reid

Chief Financial Officer and Director

Mr Reid has over 20 years' experience in numerous sectors including the Financial Services, Investment Banking and Oil and Gas industries. He has had significant exposure to M&A transactions and the equity and debt capital markets. Most recently, between 2009 and 2015 he was Finance Director at AIM listed Aurelian Oil and Gas plc and Chariot Oil and Gas Limited. Prior to this, he spent seven years as an Emerging Markets E&P banker and was Head of Oil and Gas in the London office of BNP Paribas Fortis. He has also spent seven years with Ernst & Young Corporate Finance advising on M&A, IPO and other fundraising transactions.

Mr Reid has an MBA (Distinction) from Strathclyde University, is a Member of the Institute of Chartered Accountants of Scotland, a Fellow of the Chartered Association of Certified Accountants and a Member of the Chartered Institute for Securities and Investment.

Michael Raynes

Non-Executive Director

Mr Raynes is the Managing Partner of MEA Energy Advisory UK LLP, an Energy focussed investment advisory partnership, and a Director of MEA Energy Investment Company Limited. MEA Energy Investment Company Limited is a significant shareholder in SDX Energy Inc. Previously Mr Raynes was the Chief Operating Officer of Waha Capital with responsibility for all investing activity including Sales & Trading, Private Equity, Infrastructure, Real Estate and Energy. He brings with him an intricate understanding of investing in the Middle East and North Africa and has established a strong track record of adding value to businesses and generating strong returns for investors.

Prior to Mr Raynes' role at Waha Capital, he was a Senior Investment Banker with Barclays Capital in London.

Remuneration Report

The remuneration of the directors for the year ended December 31, 2017 was as follows:

	Fees/ basic salary	Cash bonus 2016 ⁽³⁾	Cash bonus 2017 ⁽³⁾	Pension	Benefits in kind	Total 2017	Total 2016	Note 3 (i) Restated Remuneration	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	Total 2017	Total 2016
Paul Welch ⁽¹⁾	450,000	350,000	315,000	-	76,676	1,191,676	515,386	841,676	865,386
Mark Reid ⁽²⁾	318,106	200,000	245,373	15,905	-	779,384	284,950	579,384	484,950
Michael Doyle ⁽⁴⁾	59,849	-	-	-	-	59,849	35,000		
David Mitchell ⁽⁴⁾	40,655	-	-	-	-	40,655	30,000		
David Richards ⁽⁴⁾	42,318	-	-	-	-	42,318	35,000		
Michael Raynes ⁽⁵⁾	30,030	-	-	-	-	30,030	-		
Barrie Wright ⁽⁴⁾⁽⁶⁾	-	-	-	-	-	-	18,750		
Paul Moase ⁽⁶⁾	-	-	-	-	-	-	18,750		

(1) Paul Welch was appointed President and Chief Executive Officer on April 12, 2013

(2) Mark Reid was appointed Chief Financial Officer on November 13, 2015 and was appointed as a director on September 26, 2016

(3) Up until 2017, given the early stage of the Company's development, cash bonuses paid to the CEO and CFO were recognised only when paid as it was unclear whether bonuses would be awarded.

(3i) Note 3 (i) reflects the 2017 and 2016 remuneration with the impact of the 2017 and 2016 bonuses reflected in the years that they were accrued.

(4) Messrs. Doyle, Mitchell, Richards and Wright were appointed directors effective October 1, 2015 upon completion of the business combination between the Corporation and Madison Petrogas Ltd.

(5) Mr. Raynes was appointed as a director on September 26, 2016.

(6) Messrs Moase and Wright retired as directors on September 26, 2016.

Stock-based compensation

In 2017 the Company incurred share-based payment charges of US\$417k in respect of the above named directors.

In 2016, it was determined that one of the inputs to the Black-Scholes option pricing model, specifically volatility of returns, required to be updated following the business combination between Sea Dragon and Madison, with a US\$0.1 million non-cash stock based compensation credit being recognized for the twelve months ended December 31, 2016. As a result, for this period the Company did not incur any share-based payment charges in respect of the above named directors.

Share options and LTIP units granted for directors who served during the year are as follows:

	Options held at January 1, 2017	Granted during the year	Lapsed/forfeited during the year	Options held at December 31, 2017
Executive directors				
Paul Welch	800,000	770,000 ¹	-	1,570,500
Mark Reid	400,000	555,555 ¹	-	955,555
Non-executive directors				
Michael Doyle	160,000	160,000	-	320,000
David Mitchell	160,000	160,000	-	320,000
David Richards	160,000	160,000	-	320,000
Michael Raynes	-	160,000	-	160,000

(1) The units granted to Messrs. Welch and Reid were under the Corporation's Long Term Incentive Plan ("LTIP").

See note 17 to the Consolidated Financial Statements for the year ended December 31, 2017 for further details.

Corporate Governance Statement

General

The board of directors (the “Board”) of SDX Energy Inc. (the “Corporation”) recognizes that good corporate governance is of fundamental importance to the success of the Corporation. The Corporation’s governance practices are the responsibility of the Board.

This Statement of Corporate Governance Practices sets out the Board’s assessment of the Corporation’s governance practices in accordance with National Instrument 58-101 – Disclosure of Corporate Governance Practices (“NI 58-101”) and National Policy 58-201 – Corporate Governance Guidelines (“NP 58-201”). The Corporation’s governance practices are generally consistent with the practices and guidelines set out in NI 58-101 and NP 58-201.

Board of Directors

The Corporation’s board of directors consists of six members namely Michael Doyle, Paul Welch, David Mitchell, David Richards, Mark Reid and Michael Raynes. The Board of Directors has reviewed the status of each director to determine whether such director is “independent” as defined in NI 58-101. As a result of such review, and after consideration of all business, family and other relationships among the directors and the Corporation, the Board of Directors has determined that Messrs. Doyle, Mitchell, Richards and Raynes are each independent within the meaning of NI 58-101. Messrs. Welch and Reid are not independent under NI 58-101 as they continue to be officers of the Corporation.

Directorships

Directorships held by directors of the Corporation in other reporting issuers are set forth below:

Director	Directorships held
Michael Doyle	Richmond Road Capital Corp.
David Richards	Standard Exploration Ltd.

Orientation and continuing education

The Board of Directors is responsible for the orientation and education of new members of the board of directors and all new directors are provided with copies of the Corporation’s board and committee mandates and policies, the Corporation’s by-laws, documents from recent Board meetings and other reference materials relating to the duties and obligations of directors, the business and operations of the Corporation. New directors are also provided with opportunities for meeting and discussions with senior management and other directors. Prior to joining the board, each new director will meet with the Chief Executive Officer of the Corporation. Such officer is responsible for outlining the business and prospects of the Corporation, both positive and negative, with a view to ensuring that the new director is properly informed to commence his duties as a director. Each new director is also given the opportunity to meet with the auditors and legal counsel to the Corporation. As part of the annual Board of Directors’ assessment process, the Board of Directors determines whether any additional education and training is required for its members.

Ethical business conduct

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, the Corporation has adopted a Code of Conduct which addresses the Corporation’s continuing commitment to integrity and ethical behaviour. The Code of Conduct establishes procedures that allow directors, officers and employees of the Corporation to confidentially submit their concerns to the Chief Executive Officer or the Chairman of the Board regarding questionable ethical, moral, accounting or auditing matters, without fear of retaliation. To the Corporation’s knowledge there have been no departures from this Code of Conduct that would necessitate the filing of a material change report. A copy of the Code of Conduct is available to review at the head office of the Corporation during business hours.

Nomination of Directors

The Board of Directors as a whole is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders of the Corporation, with the goal of ensuring that the board consists of an appropriate number of directors who collectively possess the competencies identified as being appropriate to the effectiveness of the board as a whole.

Compensation

The Compensation Committee is responsible for reviewing the Corporation’s overall compensation strategy, and is responsible for reviewing and recommending for approval the salaries and compensation of the Corporation’s executive officers.

The Compensation Committee also reviews the compensation of the non-executive directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable organizations.

See page 15 for details of compensation paid to Directors during 2017.

Board Committees

The Corporation's Board of Directors has three committees, the Audit Committee, the Compensation Committee and the Reserves Committee.

Audit Committee

The Audit Committee consists of David Richards (Chair), Michael Doyle and Michael Raynes. All members of the Audit Committee have been determined to be independent, and all members are considered to be financially literate, as such terms are defined in National Instrument 52-110 – Audit Committees ("NI 52-110").

The Audit Committee of the Corporation is a committee of the Board established for the purpose of overseeing the accounting and financial reporting process of the Corporation. The Audit Committee has set out its responsibilities and composition requirements in fulfilling its oversight in relation to the Corporation's internal accounting standards and practices, financial information, accounting systems and procedures. See the Company website, www.sdxenergy.com, for a copy of the Audit Committee Terms of Reference.

The Corporation has not adopted specific policies and procedures for the engagement of non-audit services, however, the duties of the Audit Committee include the review and pre-approval of all non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees) and the consideration of the effect of such services on the independence of the external audit.

Compensation Committee

The Compensation Committee is comprised of Michael Raynes (Chair) and David Mitchell. The Compensation Committee is comprised of non-management members of the board of directors and is required to convene at least annually.

The Compensation Committee exercises general responsibility regarding the overall compensation policy for the senior employees and executive officers of the Corporation. Subject to the approval of the Board, it is responsible for: (i) recommending the salary and benefits of the Chief Executive Officer, subject to terms of any existing contractual arrangements; (ii) recommending the general compensation structure and policies and programs for the Corporation and the salary and benefit levels for the senior officers and management; (iii) reviewing the Corporation's stock option plan and Long Term Incentive Plan ("LTIP") and authorizing their use, determining the number of options/units, and the terms thereof, that may be issued under the stock option plan and LTIP plan of the Corporation during any particular period and issuing or authorizing the award of such options/LTIPs in accordance with the plan; (iv) reviewing and making recommendations to the Board on issues that arise in relation to any employment contracts in force from time to time; (v) reviewing annually all other benefit programs for salaried personnel; (vi) reviewing and approving severance arrangements for senior officers and management; (vii) reviewing the executive compensation disclosure required to be included in the information circular for the shareholders' annual meeting; (viii) recommending the compensation for members of the Board, as well as for committee members, including the compensation of the Chairman of the Board and any chairman of a Board committee; (ix) reviewing and making recommendations on the succession plan for the Chief Executive Officer and for key employees of the Corporation; and (x) reviewing and making recommendations on any material changes in human resources policy, procedure, remuneration and benefits.

Reserves Committee

The board of directors has adopted a mandate for the Reserves Committee, which is currently comprised of David Mitchell (Chair) and Michael Doyle. The Reserves Committee is responsible for meeting with the independent engineering firm commissioned to conduct the reserves evaluation on the Corporation's oil and gas assets and to discuss the results of such evaluation with such independent evaluators and management. The Reserves Committee's responsibilities include reviewing management's recommendations for the appointment or proposed changes of independent evaluators, reviewing the Corporation's procedures for providing information to the independent evaluators, meeting with management and the independent evaluator to review the reserves data and report, including any restrictions imposed by management or significant issues on which there was a disagreement with management and reviewing reserve additions and revisions which occur from one report to the next, recommending to the board of directors whether to approve the content of the independent evaluators' report, reviewing the Corporation's procedures for reporting on other information associated with oil and gas producing activities and generally reviewing all public disclosure of estimates of the Corporation's reserves. The Reserves Committee meets at least once annually or otherwise as circumstances warrant.

Assessments

The Compensation Committee is responsible for developing an annual assessment of the overall performance of the Board and its committees. The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. To date, the Compensation Committee and the Board have not put into place a formal process for assessing the effectiveness of the board as a whole, its committees or individual directors, but will consider implementing one in the future should circumstances warrant. Based on the Corporation's size, its stage of development and the number of individuals on the board of directors, the Compensation Committee and the Board consider a formal assessment process to be inappropriate at this time. The Compensation Committee and the Board plan to continue evaluating the Board's effectiveness on an ad hoc basis.

Focused on North Africa

Egypt:

1. Multiple world class hydrocarbon basins
2. Excellent business environment
3. Low operating costs

Morocco:

1. Most competitive fiscal terms in the industry
2. High local gas prices
3. Dominant commercial position

Production

8,387

boe/d

Combined Egyptian daily average gross production for the twelve months to December 31, 2017



Reserves

25.7

mmboe

Asset reserves (gross) - North West Gemsa, Meseda, South Disouq and Morocco at December 31, 2017



Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US\$)

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 23, 2018 is a review of results of operations and the liquidity and capital resources of SDX Energy Inc. (the "Company" or "SDX"), for the three and twelve months ended December 31, 2017. This MD&A should be read in conjunction with the accompanying Consolidated Financial Statements for the year ended December 31, 2017.

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

As discussed in this MD&A, and in note 4 to the Consolidated Financial Statements, on January 27, 2017, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc. In order to provide the reader with a better understanding on the enlarged business, this MD&A contains certain explanations where the performance of the Company has been analysed as if the acquisition had taken place on January 1, 2016 by using pro forma figures. These are clearly denoted as being pro forma.

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

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

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

Forward-looking statements

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

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

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

Use of Estimates

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

Business Combination

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

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

Non-IFRS measures

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

Netback

Netback is a non-IFRS measure that represents sales net of all operating expenses and government royalties. Management believes that netback is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Management considers netback an important measure as it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures used by other companies. See netback reconciliation to operating income in note 21 to the Consolidated Financial Statements.

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US\$)

SDX's business strategy and work program

SDX's Business

SDX is engaged in the exploration, development and production of oil and gas. Current activities are concentrated in Egypt and Morocco, where the Company has interests in seven concessions with short and long-term potential. The Company exited its operation in Cameroon on July 31, 2016. The Company's strategy is to develop the potential of its existing concessions while seeking growth opportunities within its North Africa region of focus. The Company intends to create shareholder value by enhancing the value of its assets and through significant growth in production volumes, cash flow and earnings.

Strategy

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

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

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

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

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

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

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

2018 Work program

The Company's capital expenditure program for 2018 is expected to be approximately US\$44.6 million, including the estimated costs of developing the SD-1X discovery, which are still under review and subject to completion of tenders.

In North West Gemsa, the Company will be investing c.US\$3.3 million and US\$0.9 million respectively for its share of a two well drilling program and a seven well workover program. This investment is targeting a 2018 production rate of 4,400 boep/d which is broadly in line with 2017 production levels.

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

In South Disouq the Company plans to invest up to US\$6.6 million for its share of a four well program to be carried out during 2018. The well program will cover two exploration wells, Ibn Yunus and Kelvin, targeting up to 150 bcf in two separate structures and two development wells, SD-4X and SD-3X on the existing SD-1X discovery. Upon success of SD-4X and SD-3X, the Company expects to complete a 10km pipeline, together with the establishment of the SD-1X processing facility and is targeting first production in the second half of 2018. Depending on the results of the final tendering processes, SDX's share of the associated capex for the pipeline and processing facility will be cUS\$8.25 million.

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

In Morocco, during 2018, the Company will complete the remaining two exploration wells, LNB-1 and LMS-1, of its nine well drilling program. Including the costs of the outstanding 2017 drilling payables and associated customer connections projects, the Company expects to spend approximately US\$13 million to complete the drilling program. In addition the Company plans to acquire 240km² of 3D seismic on its Gharb Centre permit during 2018 at a cost of cUS\$6.5 million.

Operational and financial highlights

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

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

(1) Three months ended September 30, 2017

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

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US\$)

Operational and financial highlights (continued)

Net revenue overview

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

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

This movement is summarized below:

\$000's	
Total net revenue nine months ended December 31, 2017	39,166
Total net revenue nine months ended December 31, 2016	12,914
Increase period on period	26,252
Attributable to:	
Decrease in SDX's 10% share of NW Gemsa	(2,516)
Increase in SDX's share of Block-H Meseda	1,686
Acquired 40% share of NW Gemsa	14,657
Acquired Moroccan gas business	12,425
Total increase period on period	26,252

Oil sales and production service fee revenues

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

Oil sales revenues for the three and twelve months ended December 31, 2017 of US\$9.1 million and US\$31.6 million include US\$7.8 million and US\$24.8 million respectively relating to the acquisition from Circle Oil Plc which completed on January 27, 2017.

Oil sales revenue (relates to NW Gemsa only)

Oil sales volumes

Total oil sales volumes for the three and twelve months ended December 31, 2017 averaged 1,710 bbl/d and 1,733 bbl/d compared to 468 bbl/d and 534 bbl/d for the comparative periods of the prior year. Of these, 1,368 bbl/d and 1,358 bbl/d are due to the additional 40% share in the concession that was acquired from Circle Oil plc.

Total sales volumes increased by 437,004 barrels, 223%, to 632,592 barrels in the twelve months ended December 31, 2017 compared to 195,588 barrels in the comparative period of 2016. This net increase of 437,004 barrels can be explained by the 495,558 barrels from the additional 40% share of the Concession that was acquired from Circle Oil and a like-for-like (i.e. 10% share) decrease of 58,554 barrels, 30%, due to natural reservoir decline. The NW Gemsa concession reached peak production rate in Q4 2014 and volumes have now started to decline.

On a pro forma basis, assuming that the Circle Oil acquisition had occurred on January 1, 2016, sales volumes of 685,169 barrels (1,877 bbl/d) for the twelve months ended December 31, 2017 compare to sales volumes of 977,940 (2,671 bbl/d) for the same period in 2016, a 30% reduction again due to natural reservoir decline.

Oil sales pricing

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

During the three and twelve months ended December 31, 2017 the Brent price ranged from a high of US\$66.80 per barrel on December 28, 2017 to a low of US\$43.98 per barrel on June 20, 2017. The current oil price environment is due to the rebalancing of over-supply in the market particularly from OPEC countries and US shale producers, the lifting of trade sanctions on Iran, and lower demand as a result of slower growth in large 'consuming economies' such as China. At this time, the Company does not hedge any of its production.

For the three and twelve months ended December 31, 2017, oil sales made by the Company achieved an average realized price per barrel of oil of US\$57.77 and US\$50.02 respectively compared to the average Brent Oil price ("Brent") for the periods of US\$61.52 and \$54.25; a discount of US\$3.75, 6% per barrel and a discount of US\$4.23, 8% per barrel respectively. The Company receives a discount to Brent due to the quality of the oil produced and a further deduction is reflected in the realized price as a result of marketing fees. For the three and twelve months ended December 31, 2016, the Company achieved average realized prices of US\$44.56 and US\$38.00 respectively.

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

Oil sales revenue variance from prior year

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

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

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

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

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

Oil sales revenue variance from prior quarter

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

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

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US\$)

Operational and financial highlights (continued)

Production service fees (relates to Meseda only)

Production service fee volumes

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

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

Production service fee pricing

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

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

Production service fee variance from prior year

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

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

Production service fee variance from prior quarter

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

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

Morocco gas sales revenue

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

Following the acquisition of the Moroccan assets of Circle Oil plc in January 2017, the Company sells natural gas to two industrial customers in Kenitra, northern Morocco. During the period January 27, 2017 to December 31, 2017, the realized natural gas price was \$9.51/mcf on sales volumes net to SDX of 3.91mcf/d.

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

Other products sales revenue

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

Royalties

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

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

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

The Concession agreements allow for the recovery of operating and capital costs through a cost oil allocation which has an impact on the government share of production as highlighted below (as at December 31, 2017 and December 31, 2016):

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

(1) WI denotes the Company's Working interest

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

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

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

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Operational and financial highlights (continued)

Direct operating costs

The direct operating costs per concession were:

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

The direct operating costs per boe per concession were:

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

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

NW Gemsa

NW Gemsa direct operating costs for the three and twelve months to December 31, 2017 were US\$1.5 million and US\$6.5 million, US\$0.5 million and US\$4.3 million higher respectively than the comparative periods of the prior year. This variance is predominantly attributable to the additional 40% interest in the concession acquired during the current year, partly offset by headcount reductions in the operation. Direct operating costs are US\$0.3 million lower than the prior quarter.

Block H-Meseda

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

Morocco - Sebou

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

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

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

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

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

The DD&A per concession was:

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

General and administrative expenses

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

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

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

- higher wages and employee costs (US\$4.0 million) due to payments and accruals made under the SDX employee bonus scheme of US\$2.0 million, including tax, which reflects the impact of both the 2017 and 2016 bonuses (which were determined and awarded in 2017), the Egyptian severance costs (US\$0.5 million), increased technical personnel headcount in London and Cairo (US\$0.8 million), higher Egyptian salary taxes (US\$0.1 million) and staff costs at the acquired Rabat office (US\$0.6 million);
- higher consultancy fees (US\$0.2 million) due to increased levels of corporate activity;
- higher legal fees (US\$0.1 million), higher audit (US\$0.1 million) and tax fees (US\$0.3 million) and higher travel costs (US\$0.2 million) due to the increased size of the group;
- higher office expenses (US\$0.4 million) due to the acquired Rabat office;
- transaction costs from the Circle acquisition (US\$2.4 million) associated with investment banking fees, legal and financial due diligence fees, staff redundancy and public company filing requirements; and
- greater service recharges ((US\$2.6 million)) relating to the increase in cross charging of technical and administrative time spent by the Company on its operating assets, in particular the drilling campaign in Morocco and drilling/development activity at South Disouq and the recovery of indirect overhead recharges from concession partners.

Current taxes

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

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

The current taxes per concession were:

\$000's	Twelve months ended December 31	
	2017	2016
NW Gemsa	3,551	1,272
Block-H Meseda	1,017	227
Morocco - Sebou	-	-
Other	(27)	-
Total current taxes	4,541	1,499

Current taxes for the twelve months ended December 31, 2017 were US\$4.5 million compared to US\$1.5 million for the comparative period. The variance is due to the acquisition of an additional 40% share in the NW Gemsa concession and improved profitability at both NW Gemsa and Block-H Meseda due to the increase in sales realizations (pricing), as well as production variances.

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Operational and financial highlights (continued)

Net earnings

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

The main components of this difference are:

- an increase in net revenues of US\$26.3 million as a result of the acquired Circle Oil assets and higher oil prices, offset by lower like-for-like production at NW Gemsa and Block-H Meseda;
- a US\$29.6 million gain on acquisition of the Circle Oil assets;
- a US\$24.6 million reduction in exploration and evaluation expenditure. In the twelve months ended December 31, 2016 the Company wrote off its capitalized expenditure on Bakassi West in Cameroon and withdrew from the Concession;
- the absence of a US\$4.3 million impairment expense recorded in respect of NW Gemsa in the twelve months ended December 31, 2016, offset by:
- higher stock based compensation of US\$0.6 million;
- greater operating expenses (US\$(5.0) million) and DD&A charge (US\$(14.5) million) incurred by the enlarged business;
- higher G&A expenses (US\$(5.1) million) due to transaction costs, staff bonuses and the increased size of the Group; and
- higher taxation expense (US\$(3.0) million) mainly due to the introduction of the 40% of NW Gemsa from the acquisition from Circle Oil plc and the increased profitability of the Group.

Capital expenditures

The following table shows the capital expenditure for the Company and agrees to the notes 9 and 10 to the Consolidated Financial Statements for the period ended December 31, 2017, which include discussion therein.

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

Decommissioning liability

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

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

Liquidity and capital resources

Share capital

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

\$000's	Prior quarter	Three months ended	Twelve months ended
		December 31 2017	December 31 2017
High (CDN)	\$0.95	\$0.99	\$1.16
Low (CDN)	\$0.70	\$0.80	\$0.50
Average volume	101,245	105,327	87,030

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

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

The increase in Common shares as at December 31, 2017 relates to the Common shares issued on January 27, 2017 to fund the acquisition of Circle Oil plc's Egyptian and Moroccan assets (see further discussion elsewhere in this MD&A) and within note 4 to the Consolidated Financial Statements (107,056k common shares), as well as an additional fund raising completed in September (17,559k common shares).

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

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

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

Stock based compensation

Stock option program

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

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

Long Term Incentive Plan ("LTIP")

On July 31, 2017 the Company established a new Long Term Incentive Plan and issued awards to its Executive Directors and certain other key employees. For further details see note 17 to the Consolidated Financial Statements.

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Liquidity and capital resources (continued)

Capital resources

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

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

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

As at December 31, 2017, the Company had US\$37.7 million in trade and other receivables compared to US\$9.5 million as at December 31, 2016. Approximately US\$25.6 million is due from a government of Egypt controlled corporation ("EGPC") for oil sales, gas and NGL sales and production service fees, all of which is expected to be received in the normal course of operations. The Company also had US\$1.6 million related to the joint venture partner account for the South Disouq concession.

US\$3.6 million is owed by a Government of Morocco controlled corporation, Office National Hydrocarbures et des Mines ("ONHYM"), and relates to ONHYM's share of well completion and connection costs and production costs.

US\$3.2 million is owing from third party gas customers in Morocco and is expected to be collected within agreed credit terms.

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

Subsequent to December 31, 2017, the Company collected US\$12.9 million of trade receivables from those that were outstanding at December 31, 2017; US\$7.9 million for NW Gemsa, US\$2.8 million for Block-H Meseda and US\$2.2 million from third party gas customers in Morocco.

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

\$000's	December 31 2017	December 31 2016
Current assets		
Cash and cash equivalents	25,844	4,725
Trade and other receivables	37,656	9,463
Inventory	5,157	1,698
Total current assets	68,657	15,886
Current liabilities		
Trade and other payables	19,459	3,674
Deferred income	495	-
Decommissioning liability	1,063	-
Current income taxes	915	389
Total current liabilities	21,932	4,063
Working capital	46,725	11,823

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

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

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

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

Financial instruments

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

Market risk

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

Commodity price risk

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

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

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Liquidity and capital resources (continued)

Financial instruments (continued)

Foreign currency risk

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

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

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

(1) FS denotes Financial Statements

(2) Excludes prepayments

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

Average: October 1, 2017 to December 31, 2017				Average: October 1, 2016 to December 30, 2016			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.7107	0.7537	9.4442	Period average	14.3634	0.8044	9.9607

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

Average: January 1, 2017 to December 31, 2017				Average: January 1, 2016 to December 31, 2016			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.8534	0.7770	9.7047	Period average	10.0211	0.7405	9.8042

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

Period end: December 31, 2017				Period end: December 31, 2016			
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
December 31, 2017	17.7875	0.7398	9.3519	December 31, 2016	18.1274	0.8113	10.1132

Trade and other payables

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

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

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

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

Credit risk

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

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

(1) Excludes prepayments

Trade and other receivables:

All of the Company's operations as at December 31, 2017 were conducted in Egypt and Morocco. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. The Company does not anticipate any default as it expects continued payment from customers against invoiced sales. Management has further considered the recoverability of the Company's trade receivables balance alongside confirmations received from EGPC and concession operators of amounts to be settled, as well as forecast use of EGP in operations, and do not consider it necessary to apply discounting. The trade receivables balance and any updates to the conclusion over discounting will be monitored over the coming months.

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

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

(1) Excludes prepayments

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

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

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

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Liquidity and capital resources (continued)

Financial instruments (continued)

Cash and cash equivalents:

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

Capital management:

The Company defines and computes its capital as follows:

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

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

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

Accounting policies and estimates

The Company is required to make judgments, assumptions and estimates in the application of accounting policies that could have a significant impact on our financial results. Actual results may differ from those estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further information on the basis of presentation and our significant accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2016.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective January 1, 2017.

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

Future changes in accounting policies

There are no updates to future changes in accounting policies during 2017.

Business risk assessment

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

Political Risk

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

Financial Resources

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

Exploration, Development and Production

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

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

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

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US\$)

Business risk assessment (continued)

Oil and Natural Gas Prices

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

Reserve Estimates

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

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

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

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

Reliance on Operators and Key Employees

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

Government Regulations

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

Environmental Factors

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

Insurance

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

Regulatory Matters

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

Operating Hazards and Risks

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

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

Repatriation of earnings

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

Disruptions in Production

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

Foreign Investments

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

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

Competition

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

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

Disclosure Controls and Procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the period ended December 31, 2017. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109 as at December 31, 2017.

Management's Discussion & Analysis

for the three and twelve months ended December 31, 2017

(prepared in US\$)

Summary of quarterly results

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

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

Low cost, high margin production

The stable and sustainable low cost of operations ensures SDX Energy will be a significant beneficiary of the eventual increase in commodity pricing.

Production

8,387

boe/d

Combined Egyptian daily average gross production for the twelve months to December 31, 2017



Reserves

25.7

mmboe

Asset reserves (gross) - North West Gemsa, Meseda, South Disouq and Morocco at December 31, 2017



Independent Auditor's Report

To the Shareholders of SDX Energy Inc.

We have audited the accompanying consolidated financial statements of SDX Energy Inc. and its subsidiaries, which comprise the Consolidated Balance Sheet as at December 31, 2017 and December 31, 2016, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SDX Energy Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

PricewaterhouseCoopers LLP
431 Union Street
Aberdeen
AB11 6DA

March 23, 2018

Consolidated Balance Sheet

as at December 31, 2017 and 2016

(thousands of United States dollars)	Note	As at December 31 2017	As at December 31 2016
Assets			
Cash and cash equivalents	7	25,844	4,725
Trade and other receivables	6b	37,656	9,463
Inventory	8	5,157	1,698
Current assets		68,657	15,886
Investments	11	2,724	2,503
Property, plant and equipment	9	54,445	12,605
Intangible exploration and evaluation assets	10	15,231	10,623
Non-current assets		72,400	25,731
Total assets		141,057	41,617
Liabilities			
Trade and other payables	12	19,459	3,674
Deferred income	13	495	-
Decommissioning liability	14	1,063	-
Current income taxes	15	915	389
Current liabilities		21,932	4,063
Deferred income	13	737	-
Decommissioning liability	14	3,479	-
Deferred income taxes	15	290	290
Non-current liabilities		4,506	290
Total liabilities		26,438	4,353
Equity			
Share capital	16	88,785	40,275
Warrants	16	-	-
Contributed surplus		5,666	5,128
Accumulated other comprehensive loss		(888)	(917)
Retained earnings/(accumulated loss)		21,056	(7,222)
Total equity		114,619	37,264
Equity and liabilities		141,057	41,617

The notes are an integral part of these Consolidated Financial Statements.

The financial statements on pages 45 to 71 were approved by the Board of Directors on March 23, 2018 and signed on its behalf by:



Paul Welch
Chief Executive Officer



Mark Reid
Chief Financial Officer

Consolidated Statement of Comprehensive Income

for the years ended December 31, 2017 and 2016

(thousands of United States dollars)	Note	Twelve months ended December 31	
		2017	2016
Revenue, net of royalties	18	39,166	12,914
Direct operating expense		(10,254)	(5,282)
Gross profit		28,912	7,632
Exploration and evaluation expense		(187)	(24,833)
Depletion, depreciation and amortisation	9	(17,824)	(3,266)
Impairment expense	9	-	(4,303)
Reversal of inventory provision	8	798	479
Stock based compensation	17	(538)	47
Share of profit from joint venture	11	1,022	1,222
General and administrative expenses			
- Ongoing general and administrative expenses	19	(6,420)	(3,679)
- Transaction costs	19	(2,373)	-
Operating income/(loss)		3,390	(26,701)
Net finance (expense)/income		(129)	4
Gain on acquisition	4	29,558	-
Income/(loss) before income taxes		32,819	(26,697)
Current income tax expense	15	(4,541)	(1,499)
Deferred income tax expense	15	-	(4)
Total current and deferred income tax expense		(4,541)	(1,503)
Net income/(loss)		28,278	(28,200)
Other comprehensive income			
Foreign exchange		29	237
Total comprehensive income/(loss) for the period		28,307	(27,963)
Net income/(loss) per share			
Basic	20	\$0.153	\$(0.394)
Diluted	20	\$0.151	\$(0.394)

The notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

for the years ended December 31, 2017 and 2016

(thousands of United States dollars)	Note	Twelve months ended December 31	
		2017	2016
Share capital			
Balance, beginning of period	16	40,275	30,148
Issuance of common shares	16	49,589	10,988
Share issue costs	16	(1,079)	(861)
Balance, end of period		88,785	40,275
Warrants			
Balance, beginning of period		-	99
Expiry of warrants		-	(99)
Balance, end of period		-	-
Contributed surplus			
Balance, beginning of period		5,128	5,175
Share based payments for the period		538	(47)
Balance, end of period		5,666	5,128
Accumulated other comprehensive loss			
Balance, beginning of period		(917)	(1,154)
Foreign currency translation adjustment for the period		29	237
Balance, end of period		(888)	(917)
Retained earnings/(accumulated loss)			
Balance, beginning of period		(7,222)	20,978
Net income/(loss) for the period		28,278	(28,200)
Balance, end of period		21,056	(7,222)
Total equity		114,619	37,264

The notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

for the years ended December 31, 2017 and 2016

(thousands of United States dollars)	Twelve months ended December 31	
	2017	2016
Cash flows generated from/(used in) operating activities		
Income/(loss) before income taxes	32,819	(26,697)
Adjustments for:		
Depletion, depreciation and amortization	9 17,824	3,266
Exploration and evaluation expense	10 187	24,416
Impairment expense	9 -	4,303
Reversal of inventory provision	8 (798)	(479)
Finance expense/(income)	129	(4)
Stock based compensation	17 538	(47)
Gain on acquisition	4 (29,558)	-
Tax paid by State	15 (3,551)	(1,272)
Share of profit from joint venture	11 (1,022)	(1,222)
Operating cash flow before working capital movements	16,568	2,264
Decrease/(increase) in trade and other receivables	6b 4,871	(3,001)
Decrease/(increase) in trade and other payables	12 2,496	(408)
Increase in inventory	8 (1,951)	(31)
Payments for decommissioning	14 (4)	-
Cash generated from/(used in) operating activities	21,980	(1,176)
Income taxes paid	15 (364)	(766)
Net cash generated from/(used in) operating activities	21,616	(1,942)
Cash flows (used in)/generated from investing activities:		
Property, plant and equipment expenditures	9 (21,132)	(161)
Exploration and evaluation expenditures	10 (3,785)	(11,729)
Dividends received	11 760	825
Acquisition of subsidiaries	4 (28,056)	-
Cash balance acquired during the period	4 3,108	-
Net cash used in investing activities	(49,105)	(11,065)
Cash flows generated from/(used in) financing activities:		
Issuance of common shares	16 48,510	10,127
Finance costs paid	(43)	(96)
Net cash generated from financing activities	48,467	10,031
Increase/(decrease) in cash and cash equivalents	20,978	(2,976)
Effect of foreign exchange on cash and cash equivalents	141	(469)
Cash and cash equivalents, beginning of period	4,725	8,170
Cash and cash equivalents, end of period	25,844	4,725

The notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

1. Reporting entity

SDX Energy Inc. ("SDX" or "the Company") is a company domiciled in Canada. The address of the Company's registered office is 1900, 520 – 3rd Avenue SW, Centennial Place, East Tower, Calgary, Alberta T2P 0R3. The Consolidated Financial Statements of the Company as at and for the years ended December 31, 2017 and 2016 comprise the Company and its wholly owned subsidiaries and include the Company's share of joint arrangements as explained in note 11 below (together the "Group"). As described in note 4 to the Consolidated Financial Statements, on January 27, 2017, the Company acquired the Egyptian and Moroccan assets of Circle Oil plc.

The Company is engaged in the exploration for and development and production of oil and natural gas. The Company's principle properties are located in the Arab Republic of Egypt and the Kingdom of Morocco.

The Company's share trade on the Toronto Venture Stock Exchange ("TSX-V") in Canada and on the London Stock Exchange's Alternative Investment Market ("AIM") in the United Kingdom under the symbol "SDX".

2. Basis of preparation

(a) Statement of compliance

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and with IFRS Interpretations Committee ("IFRS IC") interpretations. These accounting standards and interpretations are collectively referred to as "IFRS" in this report.

The accounting policies that follow set out those policies that apply in preparing the Consolidated Financial Statements for the year ended December 31, 2017. The policies applied are based on IFRS issued and outstanding as of March 23, 2018.

(b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency for each entity in the Group, and for joint arrangements and associates, is the currency of the primary economic environment in which that entity operates. Transactions denominated in other currencies are converted to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at year-end exchange rates.

The Group's financial statements are presented in US dollars, as that presentation currency most reliably reflects the business performance of the Group as a whole. On consolidation, income statement items for each entity are translated from the functional currency into US dollars at average rates of exchange where the average is a reasonable approximation of rates prevailing on the transaction date. Balance sheet items are translated into US dollars at period-end exchange rates.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these Consolidated Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Purchase price allocations, depletion, depreciation and amortization, and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves. Reserve estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties, interpretations and judgements. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in commodity prices.

In accounting for property, plant and equipment, during the drilling of oil and gas wells, at period end it is necessary to estimate the value of work done ("VOWD") for any unbilled goods and services provided by contractors.

The invoicing of produced crude oil, natural gas and Natural Gas Liquids is, for non-operated concessions, performed by the Company's joint venture partners. In certain concessions, the operator is reliant on production and/or price information from other third parties, which may not be consistently prepared and received on a timely basis. In such instances, the Company may be required to estimate production volumes and/or prices based upon the most robust available data.

(e) Going concern

The Directors have reviewed the Company's forecast cash flows for the next twelve months from the date of publication of this Annual Report and through until December 31, 2019. The capital expenditure and operating costs used in these forecast cash flows are based on the Company's Board approved 2018 SDX corporate budget which reflects approved operating budgets for each of its operating assets and an estimate of 2019 SDX corporate general and administrative expenses. The Company's forecast cash flows also reflect its best estimate of operational and corporate expenditure, including corporate general and administrative costs for the year to December 31, 2019. The Directors have made enquiries into and considered the Egyptian business environment, future expectations regarding commodity price risk and, in particular, oil price risk given the volatility in quoted Brent and WTI crude oil prices.

Having considered these sensitivities and potential outcomes relating to:

- (i) country and commodity price risks;
- (ii) the Company's ability to change the timing and scale of discretionary capital expenditure;
- (iii) the Company's ability to manage operating costs; and
- (iv) the Company's ability to manage general and administrative costs.

The Directors consider that in a lower cost environment the Company has sufficient resources at its disposal to continue for the foreseeable future. The foreseeable future is defined as not being less than twelve months from the date of publication of the 2017 Annual Report.

Given the above, these Consolidated Financial Statements continue to be prepared under the going concern basis of accounting.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these Consolidated Financial Statements and have been applied consistently by the Company and its subsidiaries.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists where the Company has: power over the entities, that is existing rights that give it the current ability to direct the relevant activities of the entities (those that significantly affect the Companies' returns); exposure, or rights, to variable returns from its involvement with the entities; and the ability to use its power to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control such that decisions about the relevant activities of the arrangement (those that significantly affect the Companies' returns) require the unanimous consent of the parties sharing control. The Company has one joint arrangement, being its 50% equity interest in Brentford Oil Tools LLC ("Brentford"). As the parties sharing joint control in this entity have rights to its net assets, the arrangement constitutes a joint venture and is accounted for using the equity accounting method. Under the equity method of accounting, the investment in Brentford was initially recognized at cost and adjusted thereafter for the post-acquisition change in the net assets. The Company's Consolidated Statement of Comprehensive Income includes its share of Brentford's profit or loss. The Company's other comprehensive income includes its share of Brentford's other comprehensive income. Dividends received or receivable from Brentford are recognized as a reduction in the carrying amount of the investment.

(iii) Investments in associates

An associate is an entity over which the Company has significant influence, and is equity accounted for.

(iv) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the Consolidated Financial Statements.

(b) Foreign currency

Transactions in foreign currencies are translated to United States dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise of trade and other receivables, cash and cash equivalents, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hand, deposits with banks, term deposits, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are designated as loans and receivables.

Financial assets at fair value through the Consolidated Statement of Comprehensive Income

An instrument is classified at fair value through the Consolidated Statement of Comprehensive Income if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through the Consolidated Statement of Comprehensive Income if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in the Consolidated Statement of Comprehensive Income when incurred. Financial instruments are measured at fair value, and changes therein are recognized in the Consolidated Statement of Comprehensive Income.

Financial liabilities

Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Financial assets

Trade and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

(ii) Equity instruments

Equity instruments are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects, if any.

(d) Inventory

Inventories consist of tangible drilling materials, and other consumables. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less applicable selling expenses.

(e) Property, plant and equipment and intangible exploration and evaluation expenses

(i) Recognition and measurement

Development and production costs

Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or the construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Expenditures on major maintenance, inspections or overhauls are capitalized when the item enhances the life or performance of an asset above its original standard. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Consolidated Statement of Comprehensive Income as incurred. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance expenditures are expensed as incurred.

Intangible exploration and evaluation expenditures

Pre-licence costs are recognized in the Consolidated Statement of Comprehensive Income in the period that they are incurred.

Exploration and evaluation expenditures, including the costs of acquiring licences and directly attributable general and administrative costs, geological and geophysical costs, acquisition of mineral and surface rights, technical studies, other direct costs of exploration (drilling, trenching, sampling and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as intangible exploration and evaluation ("E&E") assets.

On a quarterly basis, a review of any areas classified and accounted for as E&E is performed to determine whether enough information exists to make a determination of the technical feasibility and commercial viability of the area. Where appropriate, review may indicate that an area should be further sub-divided due to a significant portion having been explored whilst a significant undeveloped portion with different traits (i.e. different zone, technical approach, play type, etc.) remains that requires additional E&E activities to arrive at the point where it can be assessed for technical feasibility and commercial viability.

The assessment of technical feasibility and commercial viability is performed on an area level basis unless further sub-division is merited. Depending on the extent and complexity of the prospective play, many wells may need to be drilled and potentially significant E&E costs accumulated prior to obtaining enough information to make the determination of technical feasibility and commercial viability possible.

E&E costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then, the carrying value of the relevant E&E asset will be reclassified as a development and production asset (“D&P”) into the cash generating unit (“CGU”) to which it relates, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. Typically, technical feasibility and commercial viability of extracting a mineral resource is considered to be demonstrable when proven or probable reserves are determined to exist. However, if the Company determines the area is not technically feasible and commercially viable, accumulated E&E costs are expensed in the period during which this determination is made.

(ii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets (see below), a straight-line basis is used over the assets’ estimated useful lives, as follows:

Fixtures and fittings	1 – 5 years
Office equipment	1 – 5 years
Vehicles	1 – 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the Consolidated Statement of Comprehensive Income.

An impairment loss is reversed when there is a significant change in the underlying estimates or other objective evidence. For financial assets measured at amortized cost the reversal is recognized in the Consolidated Statement of Comprehensive Income.

(ii) Non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to D&P assets or whenever facts and circumstances indicate potential impairment. Exploration and evaluation assets are tested separately for impairment. An impairment loss is recognized for the amount by which the exploration and evaluation expenditure’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure’s fair value less cost of disposal and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset’s recoverable amount is calculated. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the CGU). The recoverable amount of a CGU is the greater of its fair value less cost of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. An impairment loss is charged to the income statement. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased, and if such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(g) Share based payments

The grant date fair value of options granted to employees is recognized as stock based compensation expense, with a corresponding increase in contributed surplus over the vesting period. Each tranche granted is considered a separate grant with its own vesting period and grant date fair value. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior operating decision-makers. The senior operating decision-makers have been identified as the Executive directors that, as a group, make strategic decisions regarding the Company.

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

3. Significant accounting policies (continued)

(i) Provisions

A provision is recognized, if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(j) Decommissioning obligations

The Company's activities can give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision is established.

(k) Revenue

Revenue from the sale of oil, condensates, natural gas and natural gas liquids ("NGLs") is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline or is delivered to the refinery or other end customer. Revenue is measured net of discounts, customs duties and royalties.

Revenue from the services provided in the production of oil and natural gas is recognized when title passes from the Company to the customer. Production service fee revenue represents the Company's share of oil and gas production that remains after all obligations under its contracts have been recorded, inclusive of any royalty obligations to government and other mineral interest owners.

Tariffs and tolls charged to other entities for the use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Pursuant to the terms of the Company's Egyptian concession agreements, the corporate tax liability of the joint venture partners is paid by the government 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 treated as a benefit earned by the Company; the amount is included in net oil revenues and in income tax expense, therefore having a net neutral impact on reported net income. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The Company also has a production service agreement in Egypt relating to Block – H Meseda. The Company's subsidiary, Madison Egypt Ltd ("MEL") an Egyptian registered entity, is the SDX contracting party in this production service agreement. Corporate tax is payable by MEL based on its taxable income, from this production service agreement, for the year using tax rates enacted or substantively enacted at the reporting date.

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 December 31, 2017.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

(m) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants.

(n) Business combinations

Business combinations are accounted for using the acquisition method. Assets and acquired and liabilities assumed in a business combination are recognized at their fair value at the date of the acquisition. Any excess of the consideration paid over the fair value of the net assets acquired is recognized as an asset. Any excess of the fair value of the net assets acquired over the consideration paid is recognized in the Consolidated Statement of Comprehensive Income.

(o) New standards and interpretations

The Consolidated Financial Statements have been prepared on the basis of accounting policies consistent with those applied in the Consolidated Financial Statements for the year ended December 31, 2016. The amendment to IAS 12: "Recognition of Deferred Tax Assets for Unrealised Losses", which is mandatory for 2017, clarifies the accounting treatment for deferred tax assets related to debt instruments measured at fair value. An amendment to IAS 7 "Statement of Cash Flows: Disclosure Initiative", which is mandatory for 2017, requires entities to provide disclosures about changes in liabilities arising from financing activities, including changes from financing cash flows and non-cash changes (such as foreign exchange gains or losses). Neither of these amendments have had a material impact on the Consolidated Financial Statements. The clarification in "Annual Improvements 2014 -2016 – IFRS 12 Disclosure of interests in other entities" regarding the scope of the standard is not relevant to the Consolidated Financial Statements.

At the date of authorization of these Consolidated Financial Statements, the International Accounting Standards Board ("IASB") has issued the following new and revised standards which are not yet effective for the relevant periods:

IFRS 9 – Financial Instruments ("IFRS 9")

In July 2014, the IASB issued IFRS 9, which replaces IAS 39, Financial Instruments – Recognition and Measurement, and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual Consolidated Financial Statements commencing January 1, 2018. The Company does not expect this standard to have a significant impact on its Consolidated Financial Statements.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014 and will provide a more structured approach to measuring and recognizing revenue. The new guidance includes a five-step recognition and measurement approach and enhanced qualitative disclosure requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for annual periods beginning on or after January 1, 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures (simplified transition method). The Company has assessed the impact of IFRS 15 and determined that its application will result in no changes in its revenue recognition.

IFRS 16 – Leases ("IFRS 16")

On January 13, 2016, the IASB published IFRS 16 which replaces the current guidance in IAS 17 'Leases' ("IAS 17"). Classification of leases by the lessor under IFRS 16 continues as either an operating or a finance lease, as was the treatment under IAS 17 'Leases'. The treatment of leases by the lessee will require capitalization of most leases resulting in accounting treatment similar to finance leases under IAS 17. Exemptions for leases of very low value or short term leases will be applicable. The new standard will result in an increase in lease assets and liabilities for the lessee. Under the new standard the treatment of all lease expense is aligned in the Consolidated Statement of Comprehensive Income with depreciation, and an interest expense component recognized for each lease, in line with finance lease accounting under IAS 17. The Company's leases will come on balance sheet on adoption of IFRS16 and the impact is still being assessed. IFRS 16 will be applied for annual periods beginning on or after 1 January 2019 with the cumulative effect of initially applying the standard recognised at the date of initial application.

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for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

4. Business Combination

On January 27, 2017, the Company announced the acquisition, through two of its wholly-owned subsidiaries, of the entire issued share capital of Circle Oil Egypt Limited ("COEL") and Circle Oil Morocco Limited ("COML") for a cash purchase price of US\$28.1 million.

The acquisition was funded by means of a conditional placing of new Common Shares in SDX at a Placing Price of 30 pence (C\$0.50) per Placing Share, amounting to US\$40.0 million before costs.

COEL holds a 40% interest in the NW Gemsa concession, Eastern Desert, Egypt. Prior to the acquisition, SDX held a 10% interest in this concession, bringing the post-acquisition holding to 50%.

COML holds a 75% interest and operatorship in certain licences, onshore Morocco, with L'Office National des Hydrocarbures et des Mines ("ONHYM") holding a 25% interest.

The acquisition is in accordance with the Company's strategy to pursue value adding production and development opportunities in North Africa to complement its organic growth strategy.

The provisional fair value of the identifiable assets and liabilities of COEL and COML as at the date of acquisition were:

US\$ million	Fair value as at January 27, 2017
Non-current assets	
Property, plant & equipment	43.2
Current assets	
Cash and cash equivalents	3.1
Trade and other receivables	32.9
Inventory	1.1
Current tax	0.1
Non-current liabilities	
Decommissioning liability	(2.8)
Deferred income	(0.7)
Current liabilities	
Trade and other payables	(17.1)
Decommissioning liability	(1.2)
Deferred income	(0.9)
Total identifiable net assets at fair value	57.7
Total consideration	(28.1)
Excess of fair value over cost (bargain purchase)	29.6

Prior to the acquisition the parent company of COEL and COML, Circle Oil Jersey Limited, was placed into administration. The excess of fair value over cost arises due to the fact that COEL and COML were distressed businesses and purchased out of administration. A provisional bargain purchase gain amounting to US\$30.0 million has been recognised in the Consolidated Statement of Comprehensive Income for the twelve months ended December 31, 2017, after recording the following adjustments:

- A provision of US\$2.6 million has been recognised against certain aged receivables due from ONHYM relating to its share of historic construction costs, and US\$0.5 million additional deferred income identified. These have been partially offset by additional billings for well completions in Morocco of US\$1.0 million (US\$0.8 million net of VAT). Management has further considered the recoverability of the trade receivables balance alongside confirmations received from EGPC and concession operators of amounts to be settled, as well as forecast uses of Egyptian Pounds in operations, and do not consider it necessary to apply discounting. The trade receivables balance and any updates to the conclusion over discounting will be monitored over the coming months.
- Ahead of the drilling campaign that commenced in the second half of 2017, an assessment was made of the acquired inventory. Certain items were identified as being unfit for use and an obsolescence provision of US\$0.2 million was recognised. Aged working capital of US\$0.9 million associated with legacy suppliers was eliminated.
- A further US\$1.9 million has been recorded for additional liabilities acquired, relating to potential tax and legal claims.
- An accrued payable relating to back-dated tariff charges and other costs of US\$4.8 million at NW Gemsa has been released following the agreement of a payment plan with the operator. The estimate of natural gas and NGL receivable acquired has been revised down by US\$1.3 million following the receipt of additional information from the operator (see note 6b) to US\$6.9 million.

COEL and COML contributed US\$14.1 million revenue and US\$0.5 million net profit and US\$12.4 million revenue and US\$0.4 million net profit respectively to the Consolidated Financial Statements for the twelve months to December 31, 2017.

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of financial instrument valuation methods have been defined as follows:

Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 fair value measurements are based on unobservable information.

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings included in the consolidated balance sheet approximate to their fair value due to the short term nature of those instruments.

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, and the risk-free interest rate.

6. Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- market risk;
- foreign currency risk; and
- other price risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk

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

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

(1) Excludes prepayments

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

6. Financial risk management (continued)

(b) Credit risk (continued)

Trade and other receivables

Subsequent to the acquisition described in note 4, all of the Company's operations were conducted in Egypt and Morocco. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party.

The Company does not anticipate any default as it expects continued payment from customers. As such no provision for doubtful accounts has been recorded as at December 31, 2017 and 2016. Receivables have not been discounted.

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

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

(1) Excludes prepayments of US\$2.9 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.

As a result of the acquisition of Circle Oil plc on January 27, 2017, US\$32.9 million of Trade and other receivables were added to SDX's Trade and other receivables upon completion of the transaction, and this is the reason for the significant increase in these balances as at December 31, 2017.

US\$25.6 million of current receivables related to oil, gas and NGL sales and production service fees which are due from EGPC (2016: US\$7.7 million), a Government of Egypt controlled corporation. The Company expects to collect outstanding receivables of US\$22.7 million for NW Gemsa (2016: US\$3.4 million) and US\$2.9 million for Block – H Meseda (2016: US\$2.3 million), in the normal course of operations. During 2017, as part of the Government of Egypt's commitment to reduce amounts owing to international oil companies, the Company received US\$10.0 million in lump-sum payments, of which US\$9.0 million related to the acquired Circle Oil NW Gemsa receivables.

US\$3.6 million is owed by ONHYM and relates to ONHYM's share of well completion and connection and production costs outstanding. During Q4 2017 the Company received US\$2.2 million in settlement of 8" pipeline construction and some well completion costs.

US\$3.2 million is owing from third party gas customers in Morocco and is expected to be collected within agreed credit terms.

Subsequent to December 31, 2017, the Company collected US\$12.9 million of trade receivables from those that were outstanding at December 31, 2017; US\$7.9 million for NW Gemsa, US\$2.8 million for Block-H Meseda and US\$2.2 million from third party gas customers in Morocco.

The joint venture partner current accounts represent the net of monthly cash calls paid less billings received. At December 31, 2017, US\$1.6 million was receivable from joint venture partners in the South Disouq concession (2016: South Disouq - US\$0.6 million).

The other receivables of US\$0.8 million consist of US\$0.3 million for Goods and Services Tax ("GST")/ Value Added Tax ("VAT") and US\$0.5 million for other items. US\$2.9 million related to prepayments predominantly associated with the Morocco and South Disouq drilling campaigns is recorded in the Consolidated Balance Sheet.

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

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

Current trade and other receivables are unsecured and non-interest bearing. The balances which are past due are not considered impaired.

Current trade and other receivables past due (more than 90 days old) have increased by US\$10.9 million when compared to December 31, 2016. This increase is primarily due to the acquired Circle NW Gemsa and Morocco receivables, which had a significantly more aged profile than those previously managed by the Company. This US\$10.9 million increase however is after taking account of the collection of US\$2.0 million of the Company's Shukheir Marine receivables, and the receipt of US\$10.0 million of lump-sum payments from the Government of Egypt which were applied to aged receivables, of which US\$9.0 million related to the acquired Circle Oil NW Gemsa receivables.

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.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political unrest. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on projects to further manage capital expenditure and has a Board of Director approved signing authority matrix. The Company also attempts to match its payment cycle with collection of oil and service fee revenue to the extent possible.

As at December 31, 2017, other than the non-current elements of the deferred income and decommissioning liabilities, the Company's financial liabilities are due within one year.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will 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.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

(e) Foreign currency risk

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

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

	Total per FS ⁽¹⁾	US\$	EGP	GBP	MAD	Other
As at December 31, 2017			US\$ equivalent			
Cash and cash equivalents	25,844	9,673	1,314	2,840	12,011	6
Trade and other receivables ⁽²⁾	34,781	25,742	75	145	8,783	36
Trade and other payables	(19,459)	(12,606)	(810)	(315)	(2,945)	(2,783)
Current income taxes	(915)	-	(915)	-	-	-
Balance sheet exposure	40,251	22,809	(336)	2,670	17,849	(2,741)

(1) FS denotes Financial Statements

(2) Excludes prepayments

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

Average: October 1, 2017 to December 31, 2017	USD/EGP USD/GBP USD/MAD			Average: October 1, 2016 to December 30, 2016	USD/EGP USD/GBP USD/MAD		
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.7107	0.7537	9.4442	Period average	14.3634	0.8044	9.9607

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

Average: January 1, 2017 to December 31, 2017	USD/EGP USD/GBP USD/MAD			Average: January 1, 2016 to December 31, 2016	USD/EGP USD/GBP USD/MAD		
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
Period average	17.8534	0.7770	9.7047	Period average	10.0211	0.7405	9.8042

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

Period end: December 31, 2017	USD/EGP USD/GBP USD/MAD			Period end: December 31, 2016	USD/EGP USD/GBP USD/MAD		
	USD/EGP	USD/GBP	USD/MAD		USD/EGP	USD/GBP	USD/MAD
December 31, 2017	17.7875	0.7398	9.3519	December 31, 2016	18.1274	0.8113	10.1132

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

6. Financial risk management (continued)

(f) Other price risk

Other price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the United States dollar and other currencies but also macro-economic events that impact the perceived levels of supply and demand.

The Company may hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company's production is sold on the daily average price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts.

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

(g) Capital management

The Company defines and computes its capital as follows:

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

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

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

7. Cash and cash equivalents

\$000's	Carrying amount	
	December 31 2017	December 31 2016
Cash and bank balances	24,248	4,725
Restricted cash ⁽¹⁾	1,596	-
Total cash and cash equivalents	25,844	4,725

(1) Cash collateral of US\$1.5 million is held at the bank to cover bank guarantees for minimum work commitments on the Company's Moroccan concessions. These guarantees are subject to forfeiture in certain circumstances if the Company does not fulfil its minimum work obligations.

Cash at bank earns interest at floating rates based on the daily bank deposit rates.

8. Inventory

As at December 31, 2017 the Company undertook a comprehensive stockcounting exercise over all spare parts and consumables inventory across its Moroccan and Egyptian operations. Given the forthcoming exploration and development drilling operations on the South Disouq concession, and in order to identify an optimal use for the Company's inventory, a quantity of on hand drill pipe and casing was inspected and certified for use in the planned wells. This inventory was from legacy operations and previously was carried at nil value as it was not planned to be used and thus was uncertified. Furthermore, the inventory had been attributed zero realizable value due to the limited resale market in Egypt and was therefore fully provided-for. The reversal of the provision previously recognized against this inventory has resulted in a US\$0.8 million credit to the Consolidated Statement of Comprehensive Income.

9. Property, plant and equipment

\$000's	Oil and gas properties	Furniture and fixtures	Total
Cost:			
Balance at December 31, 2015	30,663	120	30,783
Additions	1,705	68	1,773
Balance at December 31, 2016	32,368	188	32,556
Additions	15,975	457	16,432
Acquisitions	43,232	-	43,232
Balance at December 31, 2017	91,575	645	92,220
Accumulated depletion, depreciation, amortization and impairment:			
Balance at December 31, 2015	(12,334)	(48)	(12,382)
Depletion, depreciation and amortization for the year	(3,225)	(41)	(3,266)
Impairment charge	(4,303)	-	(4,303)
Balance at December 31, 2016	(19,862)	(89)	(19,951)
Depletion, depreciation and amortization for the year	(17,737)	(87)	(17,824)
Balance at December 31, 2017	(37,599)	(176)	(37,775)
NBV Property, plant and equipment as at December 31, 2016	12,506	99	12,605
NBV Property, plant and equipment as at December 31, 2017	53,976	469	54,445

During the year ended December 31, 2017, the PP&E additions of US\$16.0 million predominantly related to the Morocco drilling campaign (US\$11.4 million), as well as well workovers in the NW Gemsa field, well workovers in the Block-H Meseda concession, the acquisition of additional technical software, and the refurbishment of the Rabat corporate office in Morocco. The difference between the US\$16.0 million disclosed above and the US\$21.1 million Property, plant and equipment expenditure in the Consolidated Statement of Cash Flows is due to the fact that c.US\$8.1 million of aged capital expenditure payables acquired from Circle Oil were paid during 2017, partially offset by accrued payables for Moroccan drilling, which are part of Trade and other payables as at December 31, 2017.

The Company has also recorded, on the face of the table above, the assets acquired from Circle Oil plc, at fair value of US\$43.2 million.

Impairment assessment

At the reporting date, management performed an impairment indicator assessment and concluded that no such indicators existed for the Company's properties in Egypt and Morocco.

In the prior period the NW Gemsa field was impaired by US\$4.3 million, due to increased forecast operating expenditure and a reduction in the proved and probable reserves.

10. Intangible exploration and evaluation assets

\$000's	
Balance at December 31, 2015	23,473
Additions	11,566
Exploration and evaluation expense	(24,416)
Balance at December 31, 2016	10,623
Additions	4,608
Balance at December 31, 2017	15,231

During the twelve months ended December 31, 2017, E&E additions totaling US\$4.6 million consisted of US\$2.8 million at South Disouq for seismic interpretation, SDX's share of drilling costs of the SD-1X well and preparatory work for the 2018 drilling campaign and US\$1.8 million in Morocco in respect of work for the ongoing drilling campaign, primarily the ELQ-1 well, and annual training fees for the exploration concessions.

The difference between the US\$4.6 million additions above, and the US\$3.8 million reflected in the Cash Flow relates to unpaid charges at the year end.

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

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

11. Investments

The Company owns a 50% equity interest in Brentford Oil Tools LLC ("Brentford"), an oilfield services business incorporated in Egypt, over which it exercises joint control. Brentford owns all assets which it uses to provide its services and is legally responsible for settling its liabilities. Although in the current and comparative period Brentford has only provided services to its shareholders, it is not contractually obliged to do so and in the past it has contracted with third parties and continues to seek opportunities to do so. On the balance of facts, the Company has concluded that Brentford is a Joint Venture under IFRS 11 – "Joint Arrangements" and the Company's interest is equity accounted for. The investment is reviewed regularly for indicators of impairment and no impairment was identified for the periods ended December 31, 2017 and December 31, 2016.

The following table summarizes the changes in investments for the periods ended December 31, 2017 and December 31, 2016:

	December 31 2017	December 31 2016
\$000's		
Investments, beginning of period	2,503	2,106
Dividends received	(801)	(825)
Share of operating income	1,022	1,222
Investments, end of period	2,724	2,503

The following table summarizes the Company's 50% interest in the assets, liabilities, revenue and operating income of Brentford as at December 31, 2017 and 31 December 2016:

	December 31 2017	December 31 2016
SDX share (50%) of Brentford (\$000s)		
Total assets	2,235	2,405
Total liabilities	14	3
Revenue	1,448	1,656
Net income	1,022	1,222

During the year ended December 31, 2017 50% (December 31, 2016 – 50%) of Brentford's revenue was earned from fees charged to the Company.

12. Trade and other payables

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

The US\$2.0 million increase in Trade payables as at December 31, 2017, is due to billed services and goods associated with the Moroccan drilling campaign, as well to the increased size of the Group post-Circle Oil acquisition.

Accruals include amounts for products and services received which have yet to be invoiced. The US\$8.8 million increase period on period reflects work undertaken but not yet billed on the Morocco drilling campaign well and additional liabilities incurred with the business combination, relating to potential tax and legal claims.

Joint venture partners comprise partner current accounts of US\$1.0 million for NW Gemsa (2016: US\$1.2 million), US\$1.2 million Block-H Meseda (2016: US\$0.5 million) and US\$3.5 million for the Morocco concessions (2016: US\$nil). The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Other payables of US\$1.6 million comprise an estimated liability of US\$0.5 million related to the relinquishment of the Shukheir Marine concession (2016: US\$0.5 million), employee costs accrued and associated taxes of US\$0.7 million (2016: \$0.1 million) and sundry creditors of US\$0.4 million (2016: US\$nil).

The difference between the increase of US\$15.8 million in trade and other payables in the Consolidated Balance Sheets as at December 31, 2017 and December 31, 2016 and the line item in the Consolidated Statement of Cash Flows relating to the implied increase in Trade and other payables of US\$2.5 million relates primarily to the introduction of US\$17.1 million of Trade and Other Payables from Circle Oil plc which is included in the cash flow statement as part of the US\$29.6 million Gain on acquisition and the US\$28.1 million Acquisition of subsidiaries.

13. Deferred income

Deferred income relates to an advance receipt for gas sales from a customer in Morocco. This payment was used to fund the tie-in of the customer's manufacturing premises to the Company's operated gas pipeline. The amount will be credited to the Consolidated Statement of Comprehensive Income under the terms of an agreement entered into with the customer under which the selling price of gas is discounted by 5% until the advance payment is fully recouped, expected to be during the year ended December 31, 2019.

14. Decommissioning liability

Upon acquisition of Circle Oil's Moroccan assets, the Company assumed responsibility for the decommissioning of these assets, and has drilled further wells since acquisition that will require decommissioning in future periods.

As at December 31, 2017 the total future undiscounted cash flows amounted to US\$4.9 million, to be incurred between the years 2018 and 2021 and the liability was discounted using a risk-free rate of 3.0%. Expenditure of US\$0.1 million was incurred during Q4 2017 with a further US\$1.1 million anticipated within the next 12 months.

In addition, following the drilling of the SD-1X well and submission of the South Disouq field development plan, the Company has a present obligation to decommission this asset, under the terms of the concession agreement. The total future undiscounted cash flows amounted to US\$0.1 million, to be incurred in 2022, and the liability was discounted using a risk-free rate of 8.0%.

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

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

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

15. Income tax - current and deferred

Pursuant to the terms of the Company's Egyptian PSCs, the corporate tax liability of the joint venture partners is paid by the government controlled corporations ("Corporations") who participate in these PSCs, out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes however, the corporate taxes paid by the Corporations are treated as a benefit earned by the Company, with the amount being "grossed up" and included in net oil revenues and the income tax expense of the Company. During 2017 US\$3.55 million of corporation tax was paid by government corporations.

The Company also has a PSA related to Block-H Meseda with legal title residing with Madison Egypt Limited ("Madison Egypt"), an Egyptian incorporated entity. The Company is governed by the laws and tax regulations of the Arab Republic of Egypt and pays corporate taxes on the adjusted profit of Madison Egypt.

The current income tax expense in the Consolidated Statement of Comprehensive Income for the three and twelve months ended December 31, 2017 relates to income tax on North West Gemsa's PSC and income tax relating to the Company's PSA in Block-H Meseda.

The current income tax liability of US\$0.9 million in the Consolidated Balance Sheet relates to the Company's PSA in Block H Meseda.

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 December 31, 2017.

(a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 27% (2016: 27%) to income before income taxes as follows:

Consolidated Statement of Comprehensive Income

\$000's except per unit amounts	Twelve months ended December 31	
	2017	2016
Income before income taxes	32,819	(26,697)
Canadian statutory income tax rate	27%	27%
Expected income taxes	8,861	(7,208)
Adjustments:		
Non deductible items	518	(57)
Non taxable gain on acquisition	(7,981)	-
Unrecognized income tax benefit	518	385
Foreign tax differential	1,291	433
Expenses incurred with no recognized tax benefit	1,334	7,950
Total current and deferred income tax expense	4,541	1,503

(b) The components of the deferred income tax assets and liabilities at December 31, 2017 and 2016 include the following:

Consolidated Balance Sheet

\$000's except per unit amounts	Twelve months ended December 31	
	2017	2016
Deferred tax assets/(liabilities):		
Investments	(10)	(9)
Property and equipment	(324)	(292)
Other	44	11
Deferred income tax liability	(290)	(290)

(c) The Company has US\$61.5 million of non-capital losses available at December 31, 2017 (2016: US\$56.5 million) to shelter future taxable income, the majority of which were incurred in Canada and expire between 2026 and 2035. The Company has not recognized any deferred tax assets as at December 31, 2017 and 2016 primarily relating to its Canadian business as it has determined that its deferred tax assets are not probable to be realized from current operations.

16. Share capital

(a) The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value.

(b) Common Shares issued

	December 31, 2017		December 31, 2016	
	Number of Shares (\$000's)	Stated Value (\$000's)	Number of Shares (\$000's)	Stated Value (\$000's)
Balance, beginning of period	79,844	40,275	37,642	30,148
Issue of common shares (less share issue costs)	124,649	48,510	42,202	10,127
Balance, end of period	204,493	88,785	79,844	40,275
Weighted average shares outstanding	184,422		71,509	

(c) Common Share Warrants issued

	December 31, 2017		December 31, 2016	
	Number of Shares (\$000's)	Stated Value (\$000's)	Number of Shares (\$000's)	Stated Value (\$000's)
Balance, beginning of period	-	-	611	99
Expiry of warrants	-	-	(611)	(99)
Balance, end of period	-	-	-	-

The 610,743 warrants expired on July 27, 2016.

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

17. Stock-based compensation

Stock option plan

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

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. Using this methodology, the charge for 2017 is US\$0.5 million.

During the year ended December 31, 2016, 395,000 options were cancelled as a result of two non-executive Directors and one employee leaving the Company. In addition, 190,000 options were issued during the year to three new employees. During the twelve months ended December 31, 2017, 640,000 stock options were issued to four non-executive Directors of the Company, 100,000 options lapsed and 100,000 options were cancelled due to employees leaving the Company, and 33,332 options were exercised.

The number and weighted average exercise prices of stock options for the Company's stock option plan is as follows:

	Number of Options (000's)	Weighted average exercise price (CDN\$)
Outstanding January 1, 2016	2,650	0.63
Cancelled during the year	(395)	0.63
Issued during the year	190	0.36
Outstanding December 31, 2016	2,445	0.61
Exercisable December 31, 2016	1,567	0.62
Lapsed during the year	(100)	0.54
Cancelled during the year	(100)	0.45
Exercised during the year	(33)	0.36
Issued during the year	640	0.76
Outstanding December 31, 2017	2,852	0.65
Exercisable December 31, 2017	2,395	0.64

The exercise price of the outstanding options under the stock option plan as at December 31, 2017 is as follows:

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

Key assumptions relating the options issued to December 31, 2017 are as follows:

	2017	2016	2015
Fair value at grant date (CDN)	\$0.26	\$0.28	\$0.61
Share price (CDN)	\$0.76	\$0.36	\$0.63
Exercise price (CDN)	\$0.76	\$0.36	\$0.63
Volatility (%)	70	70	70
Forfeiture (%)	0	0	0
Option life	5 years	5 years	5 years
Dividends (%)	0	0	0
Risk-free interest rate (%)	0.8	0.8	0.8

Long Term Incentive Plan ("LTIP")

On July 31, 2017 the Company established a new Long Term Incentive Plan and issued awards to its Executive Directors and certain other key employees. The Company recognizes the need to ensure that Executive Directors and key employees from its operational, commercial, technical and financial divisions, who are critical to executing the Company's strategy over the next phase of its development, are retained and incentivized to generate long term value for shareholders.

The number of shares subject to the LTIP Awards has been determined by reference to the mid-market price of a share on July 28, 2017 (£0.45 pence per share). The Company has granted market value options as defined under UK tax legislation ("CSOP Options") to certain participants. The exercise price of each CSOP Option is £0.45 pence per share, being the closing mid-market price of a share on July 28, 2017.

The LTIP Awards and CSOP Options granted under the Plan take the form of a base award over a number of common shares. These awards will normally vest on the third anniversary of the date of grant of the awards, subject to meeting certain strategic, operational, financial and shareholder return performance criteria and the continued employment of the participant. The awards for the Executive Directors are subject to a further two year holding period from the date of vesting with clawback provisions contained in the rules of the Plan which can be applied to awards made to all participants.

The following awards were granted to the two Executive Directors. These grants equate to 100% of each of the Executive Directors' salaries on 31 July 2017.

Name	Status	Number of common shares subject to LTIP award	Number of common shares subject to CSOP option
Paul Welch	Director	770,500	66,666
Mark Reid	Director	555,555	66,666

The above number of common shares granted to Executive Directors, over which the LTIP Awards and CSOP Options may vest, can be increased by a multiple of up to one times depending on the level of share price growth over the three year period from date of grant. The potential level of increased share awards is calculated as follows;

- If the share price growth in the three year period is less than 11% pa, there will be no increase in the base award number of shares set out above; and
- If the share price growth in the three year period is between a range of 11% pa and 20% pa, the additional number of shares which vest will increase proportionately within this range up to a cap of a multiple of one times the base award number of shares. This cap will be triggered at share price growth of 20% pa or more.

For the avoidance of doubt, the maximum number of shares which can vest for the CEO and CFO respectively is 1,541,000 and 1,111,111, as if any of the CSOP options vest there will be a commensurate reduction in LTIP units vesting.

Based upon the grant at 31 July 2017, the maximum potential number of common shares that can vest to the Executive Directors and other selected employees under the LTIP was in aggregate 3,449,461. All of these options are outstanding as at December 31, 2017 and March 23, 2018 but none have vested. A further 3,765,045 options were awarded subsequent to the period end, and none have vested.

The LTIP will be presented to the Company's shareholders for approval at the next annual general meeting of shareholders. The number of ordinary shares that may be issued or reserved for issuance under the awards granted pursuant to the LTIP, together with all common shares which may be issued under options granted pursuant to the Company's stock option plan, may not exceed 10% of the Company's issued and outstanding common shares at the time of grant. No ordinary shares of the Company will be issued pursuant to awards granted under the LTIP until such time as such shareholder approval is received.

Notes to the Consolidated Financial Statements

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(tabular amounts are in thousands of United States dollars except where stated)

18. Revenue, net of royalties

\$000's	Twelve months ended December 31	
	2017	2016
NW Gemsa oil sales revenue	31,641	7,432
Royalties	(13,580)	(3,190)
Net oil revenue	18,061	4,242
Block H Meseda production service fee revenues	8,045	6,359
Morocco gas sales revenue	12,425	-
Net other products revenue	635	2,313
Total net revenue before tax	39,166	12,914

The oil, gas and NGLs revenue and royalties relate to the NW Gemsa concession, which is governed by a PSC. The royalties are those attributable to the government take in accordance with the fiscal terms of the PSC. Gas and NGLs are disclosed as 'other products' in the table above.

The Company commenced sales of gas and NGLs in February 2013 from the NW Gemsa concession, recognizing revenue from February to September of that year. Subsequent to this, the Company ceased recognizing revenue due a dispute with EGPC over entitlement volumes. This dispute was resolved in Q4 2016 and revenues from October 1, 2013 to December 31, 2016, which equate to US\$2.2 million of gas sales and US\$2.4 million of NGLs were recognized in Q4 2016 and are reflected in the Consolidated Financial Statements. These sales have continued to be recognized for the twelve months ended December 31, 2017. In December 2017, the operator of the NW Gemsa concession advised that the invoices that it had issued were based on erroneous volumes and prices and that the actuals were lower. The adjustment has been made during Q4 2017, with the portion relating to the acquired Circle Oil receivables (US\$1.3 million) adjusted through the gain on acquisition, and the remainder through revenue (US\$0.3 million).

The Moroccan gas sales revenue is derived from a Petroleum Agreement with the Moroccan state.

19. General and administrative expenses

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

20. Income/(loss) per share

\$000's	Twelve months ended December 31	
	2017	2016
Net income/(loss) before comprehensive income for the period	28,278	(28,200)
Weighted average amount of shares		
Basic	184,422	71,509
Diluted	187,389	71,557
Per share amount		
Basic	\$0.153	\$(0.394)
Diluted	\$0.151	\$(0.394)

Basic income/(loss) per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-forma exercise of in-the-money stock options or warrants are used to purchase common shares at average market prices.

21. Segmental Reporting

Following the acquisition of the Egyptian and Moroccan assets of Circle Oil plc, the Company's operations are managed on a geographic basis, by country. Prior year comparative figures have been updated to reflect the new basis of reporting.

The Company is engaged in one business of upstream oil and gas exploration and production. The executive directors are the Company's chief operating decision maker within the meaning of IFRS 8.

	Twelve months ended December 31, 2017				Twelve months ended December 31, 2016 (restated)				
	Egypt	Morocco	Unallocated ¹	Total	Egypt	Morocco	Cameroon ²	Unallocated ¹	Total
Revenue	26,741	12,425	-	39,166	12,914	-	-	-	12,914
Operating costs	(9,166)	(1,088)	-	(10,254)	(5,282)	-	-	-	(5,282)
Netback (pre tax)	17,575	11,337	-	28,912	7,632	-	-	-	7,632
Exploration and evaluation expense	(2)	-	(185)	(187)	-	-	(24,731)	(102)	(24,833)
Depletion, depreciation & amortization	(7,797)	(9,898)	(129)	(17,824)	(3,225)	-	-	(41)	(3,266)
Impairment expense	-	-	-	-	(4,303)	-	-	-	(4,303)
Reversal of inventory provision	798	-	-	798	479	-	-	-	479
Stock based compensation	-	-	(538)	(538)	-	-	-	47	47
Share of profit from joint venture	1,022	-	-	1,022	1,222	-	-	-	1,222
General and administrative expenses	(1,053)	(957)	(6,783)	(8,793)	(879)	-	-	(2,800)	(3,679)
Operating income/(loss)	10,543	482	(7,635)	3,390	926	-	(24,731)	(2,896)	(26,701)

(1) Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment.

(2) As described in note 10, in 2017 the Company no longer operates in Cameroon.

The segment assets and liabilities as at December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017				December 31, 2016 (restated)				
	Egypt	Morocco	Unallocated ¹	Total	Egypt	Morocco	Cameroon ²	Unallocated ¹	Total
Segment assets	74,046	51,277	15,734	141,057	37,696	-	-	3,921	41,617
Segment liabilities	(4,703)	(19,523)	(2,212)	(26,438)	(2,926)	-	-	(1,427)	(4,353)

(1) Unallocated expenditure, assets and liabilities include amounts of a corporate nature and not specifically attributable to a geographical segment.

(2) As described in note 10, in 2017 the Company no longer operates in Cameroon.

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

22. Commitments and contingencies

Pursuant to the concession and production service fee agreements in Egypt and Morocco, the Company is required to perform certain minimum exploration and development activities that include the drilling of exploration and development wells. These obligations have not been provided for in the Consolidated Financial Statements.

In Morocco, the commitments are for the drilling of four development/appraisal wells (ELQ-1 (ongoing over the period end), ONZ-7, KSS-2 and SAH-2) in the Sebou and Gharb Centre permits, and two exploration wells in the Lalla Mimouna permit, LMS-1 and LNB-1. In addition, as a condition of being awarded the Gharb Centre permit, the Company has committed to undertake an exploration work program consisting of 240km² of 3D seismic and at least two exploration wells. The total estimated cost of these commitments is c.US\$19.5 million, including unpaid well costs at the period end.

In Egypt the Commitments are for the drilling of one development well and facilities upgrade for South Ramadan (US\$3.0 million) and two exploration wells, two development well and no less than 100km² of 3D for the second exploration phase commitment for South Disouq. The Company estimates that its share of this committed exploration cost on South Disouq is \$8.5 million which will be incurred within the next twelve months.

The anticipated timing of the expenditure associated with the above commitments is as follows:

	December 31 2017	December 31 2016
\$000's		
Less than one year	31,000	1,340
Between one and five years	-	2,933
Total	31,000	4,273

The Company has a lease commitment for its office premises in London under a non-cancellable operating lease.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	December 31 2017	December 31 2016
\$000's		
Less than one year	172	318
Between one and five years	375	499
Total	547	817

There are no contingencies as at December 31, 2017.

23. Related party transactions

All subsidiaries and joint arrangements (Brentford Oil Tools) are listed below. A list of the investments in subsidiary undertakings (all of whose operations comprise one class of business, being oil and gas exploration, development and production), including the name, proportion of ownership interest, country of operation and country of registration, is given below.

Name	Percentage	Country of operation	Country of registration
Sea Dragon Energy (UK) Ltd	100%	U.K.	U.K.
SDX Energy Investments (UK) Ltd	100%	U.K.	U.K.
SDX Energy Morocco (UK) Ltd	100%	U.K.	U.K.
Sea Dragon Cooperatieve U.A. (Netherlands)	100%	Netherlands	Netherlands
Sea Dragon Energy Holding B.V. (Netherlands)	100%	Netherlands	Netherlands
Sea Dragon Energy (Kom Ombo) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (GOS) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (Nile) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (NW Gamsa) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy Holding Ltd (BVI)	100%	British Virgin Islands	British Virgin Islands
NPC (Shukheir Marine) Ltd (BVI)	100%	Egypt	British Virgin Islands
NPC (South Ramadan) Ltd (BVI)	100%	Egypt	British Virgin Island
Madison International Oil & Gas Ltd	100%	Barbados	Barbados
Madison Egypt Oil & Gas Ltd	100%	Egypt	Barbados
Madison Cameroon Oil & Gas Ltd	100%	Cameroon	Barbados
Madison Egypt Ltd	100%	Egypt	Egypt
SDX Energy Morocco (Jersey) Ltd	100%	Morocco	Jersey
SDX Energy Egypt (Jersey) Ltd	100%	Egypt	Jersey
Brentford Oil Tools	50%	Egypt	Egypt

24. Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2017 and 2016 was as follows:

	Twelve months ended December 31	
	2017	2016
Salaries, incentives and short term benefits	2,489	1,087
Directors' fees	173	153
Stock based compensation	417	(114)
Total	3,079	1,126

Key management personnel have been identified as the non-executive directors and executive officers of the Company. The executive officers include the President and CEO and CFO.

In the year ended December 31, 2017, termination benefits of \$383k were paid to Ahmed Moaaz, the former Egypt Country Manager.

Notes to the Consolidated Financial Statements

for the years ended December 31, 2017 and 2016

(tabular amounts are in thousands of United States dollars except where stated)

25. Post balance sheet events

On January 4, 2018, it was announced that the Company had completed drilling of the ELQ-1 well in the Gharb Centre permit in Morocco to a total depth of 1,484 meters and encountering 23 net meters of reservoir interval and two meters of marginal net conventional gas pay in the Hoot formation. These results are considered non-commercial and well will be plugged and abandoned.

On January 23, 2018, it was announced by the Company that a gas discovery has been made at its ONZ-7 development well on the Sebou permit in Morocco. The ONZ-7 well was drilled to a total depth of 1,167 meters with 5 meters of net conventional natural gas pay in the Hoot formation. The well will be completed, tested and connected to existing infrastructure.

On February 21, 2018, it was announced that the Company had completed drilling of the KSS-2 well in the Sebou permit in Morocco to a total depth of 1,293 meters and encountered 8 net meters of high quality reservoir interval in the Gaddari and Guebbas sequences. These results are considered non-commercial and well will be plugged and abandoned.

On March 9, 2018, it was announced by the Company that a gas discovery has been made at its SAH-2 development well on the Sebou permit in Morocco. The SAH-2 well was drilled to a total depth of 1,304 meters with 5 meters of net conventional natural gas pay across two zones in the Guebbas and Hoot formations. The well will be completed, tested and connected to existing infrastructure.

On March 14, 2018 it was announced that the Company had completed drilling of the Rabul 5 Well in the West Gharib Concession in Egypt. The well was drilled to 5,280 feet total depth and encountered approximately 151 feet of net heavy oil pay across the Yusr and Bakr formations, with an average porosity of 18%. Further evaluation of the discovery is ongoing, after which the Company expects the well to be completed as a producer and connected to the central processing facilities at Meseda.

Corporate information

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President &
Chief Executive Officer &
Chief Operating Officer

Mark Reid
Chief Financial Officer

Independent Directors

Michael Doyle
Non-Executive Chairman

David Mitchell
David Richards
Michael Raynes

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