

SDX Energy Plc
2021 Annual Report & Financial Statements

Supplying energy in an environmentally conscious manner to the benefit of all our stakeholders

SDX
ENERGY

TUESDAY



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COMPANIES HOUSE

CEO's Comment

"2021 was a year of both challenges and successes. Our portfolio continued to perform well with production above mid-point guidance, and Netback and EBITDAX showing growth of 21% and 22%. Impairment charges relating to South Disouq and Lalla Mimouna Nord have resulted in a statutory loss for the year.

The Group had mixed drilling results. The disappointment was the unsuccessful Hanut well, however there were a lot of positives; the IY-2X development well was drilled successfully and production brought on quickly maximising value from the field. In Morocco all our three wells were drilled successfully and all were tied into production infrastructure soon after drilling. Our fourth Moroccan well has encountered some issues however we plan to recommence drilling the well in early Q2 2022.

At West Gharib in Egypt, the first well of our 13 well campaign was spud in October with the entire program looking to bring on additional barrels of oil and take advantage of the higher oil price environment. Post period end, we have been able to announce the successful drilling of the first and second wells and the testing and tie in of both.

SDX's board and management has always approached the business from the perspective of maximising value for all stakeholders. As such, we were pleased to announce in February 2022 that the Group disposed of 33% of the shares in the entity that holds its interests across its South Disouq concession for US\$5.5 million which was at a significant premium to the asset's value within our market capitalisation. As a result, a share buyback program of up to US\$3.0 million is planned to be initiated in the second half of the year.

I am very confident that the upcoming year will be a positive one for SDX and that with a healthy balance sheet and a fully-funded drilling campaign targeting some exciting value-accretive prospects, we will finish the year in an even stronger position. The share price performance has clearly been very disappointing and I and my board colleagues are focussed on reversing this trend. I would like to extend my thanks to our shareholders for their commitment throughout the period and to all of our wider stakeholders for the support they continue to give SDX."

Mark Reid

Chief Executive Officer and Director

Strategic Report

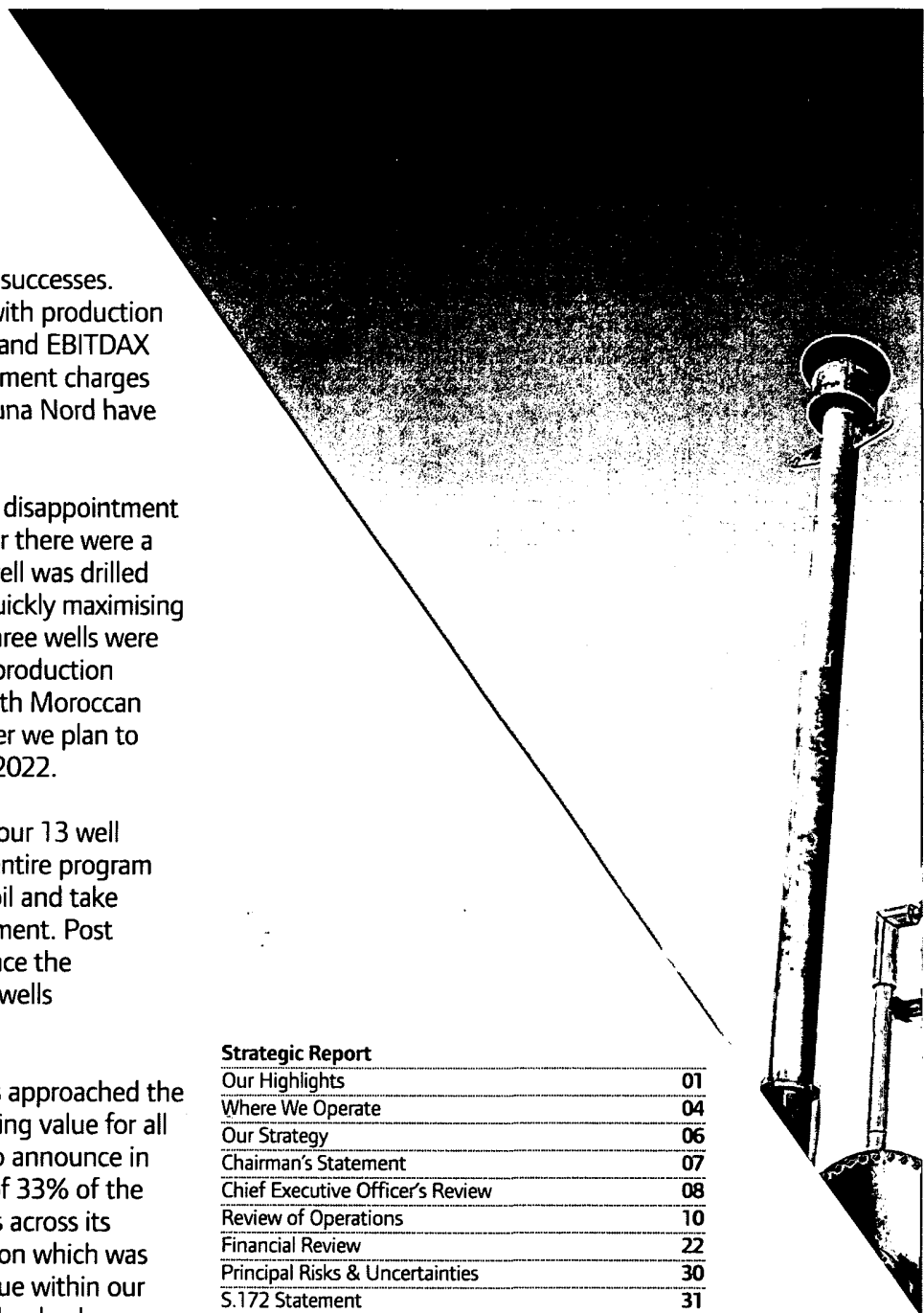
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Our Highlights

Operational

5,886 boe/d

FY 2021 average entitlement production from core assets, a decrease of 1% year on year

10 Year

extension of the West Charib concession with a 13-well campaign kicked off in October 2021

3.0 kg CO₂e/boe

FY 2021 carbon intensity at SDX's operated assets

Financial

US\$44.1m

FY 2021 gross profit / Netback, an increase of 21% year on year

US\$40.0m

FY 2021 EBITDAX, an increase of 22% year on year

US\$27.8m

FY 2021 CAPEX, within market guidance of US\$26.5-28.0m

Average entitlement production of 5,886 boe/d, was 2% higher than 2021 mid point market guidance of 5,770 boe/d and 1% lower than in 2020, excluding disposed assets. 2021 production from core assets either exceeded or was within market guidance.

The Company's operated assets recorded a carbon intensity of 3.0 kg CO₂e/boe in FY-2021 which is one of the lowest rates in the industry.

In South Disouq, a two-well development/exploration campaign took place between June and August 2021.

The first well, the IY-2X step-out development well, was successful and was brought into production during the last week of August. The second well, the Hanut-1X exploration well, was unsuccessful and the Company recognised a US\$1.3 million dry-hole cost in Q3 2021.

In Morocco, three appraisal/development wells were drilled during 2021; all of which are producing into the Company's infrastructure. The second phase of the campaign, which consists of two appraisal/development wells has been suspended and will resume in Q2 2022.

In West Charib, following the 10-year concession extension granted in 2021, the first well (MSD-21) in a 13-well campaign spud on 16 October 2021 and commenced oil production in January 2022.

2021 Netback of US\$44.1 million, 21% higher than the same period in 2020. Netback contribution from South Disouq was US\$16.5 million (2020: US\$16.2 million) due to lower gas and condensate production and increased water and sand production being more than offset by higher realised price for condensate. West Charib netback increased by US\$2.5 million due to the increase in the realised oil service fee, partly offset by lower production. Morocco netback was higher in 2021 by US\$4.8m due to significantly higher production and higher realised prices due to favourable FX. In 2020, Moroccan production was impacted by COVID-19 shutdowns.

2021 EBITDAX of US\$40.0 million was 22% higher than the same period in 2020 of US\$32.9 million due to higher Netback, partly offset by lower profitability from the Company's investment in the joint venture that operates the West Charib asset and slightly increased recurring G&A expenses.

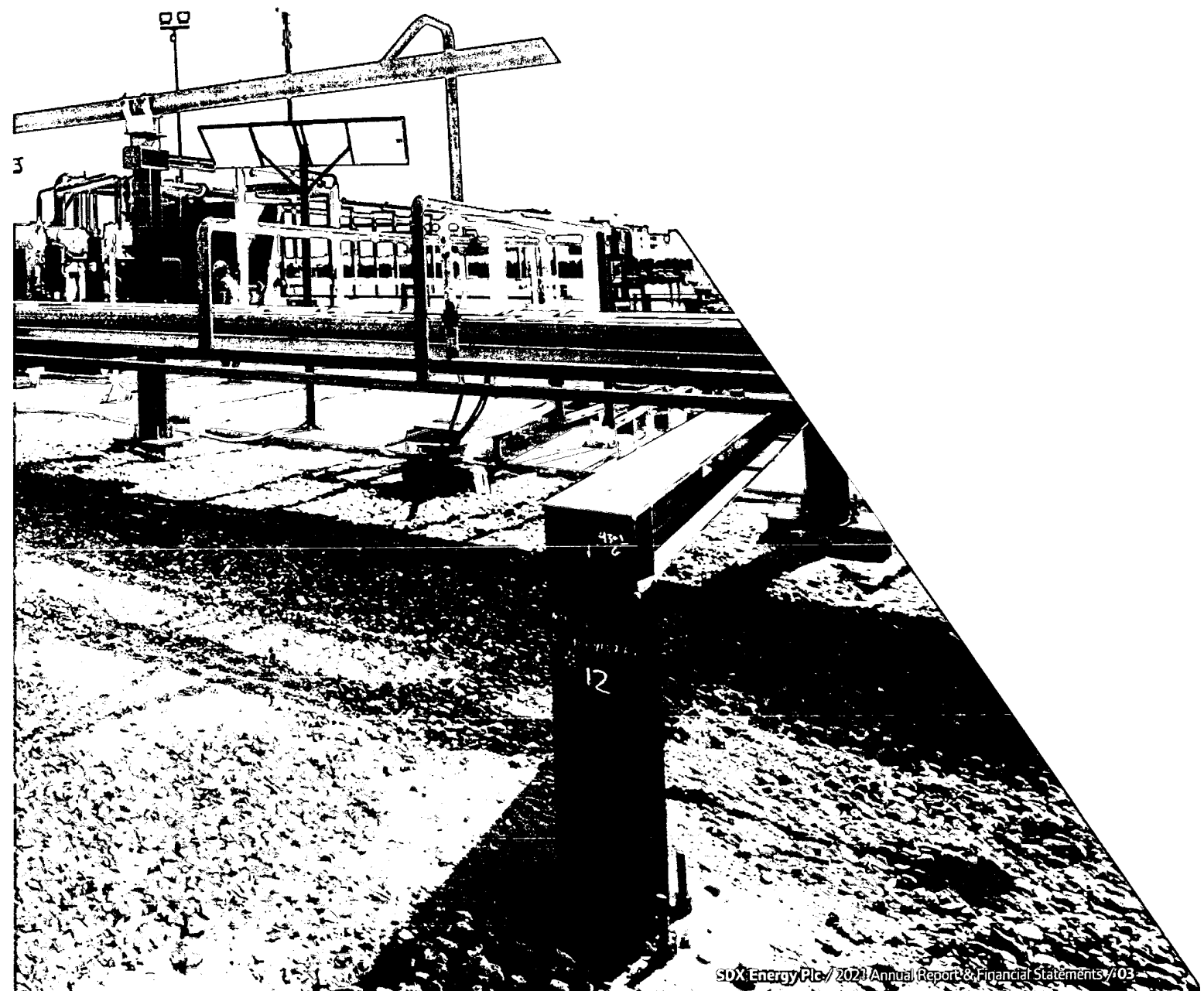
Capex of US\$27.8 million was within guidance, with South Disouq and West Charib coming in below guidance due to lower than forecast costs drilling HA-1X and IY-2X wells at South Disouq and a slight delayed start to the development drilling campaign at West Charib and Morocco ending the year above guidance due to operational issues resulting in higher than anticipated costs being incurred during the Q4 2021 well campaign

Our Expertise Onshore



Strategic Report

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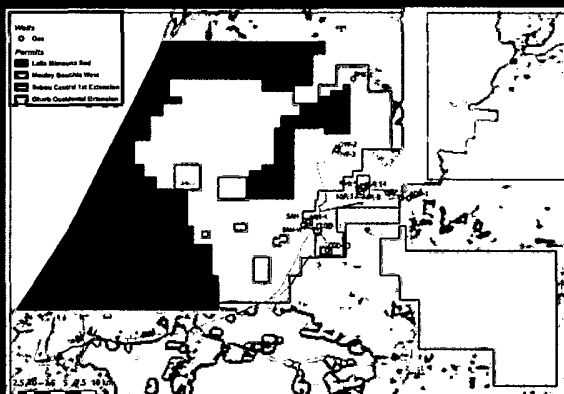


Where We Operate

A MENA focused Oil & Gas company

Morocco

The Company's Moroccan acreage consists of four exploration permits, and five exploitation concessions, all of which are located in the Gharb Basin in northern Morocco.



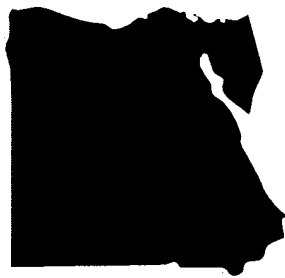
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2,235km²

Combined concession area

4

Exploration permits
75% working interest in each

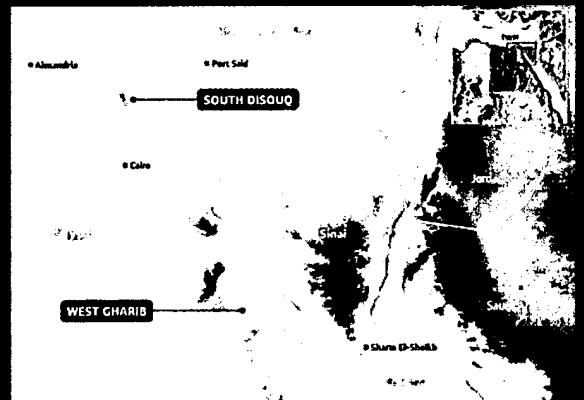


126km²
Combined concession area

2
Concessions

Egypt

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

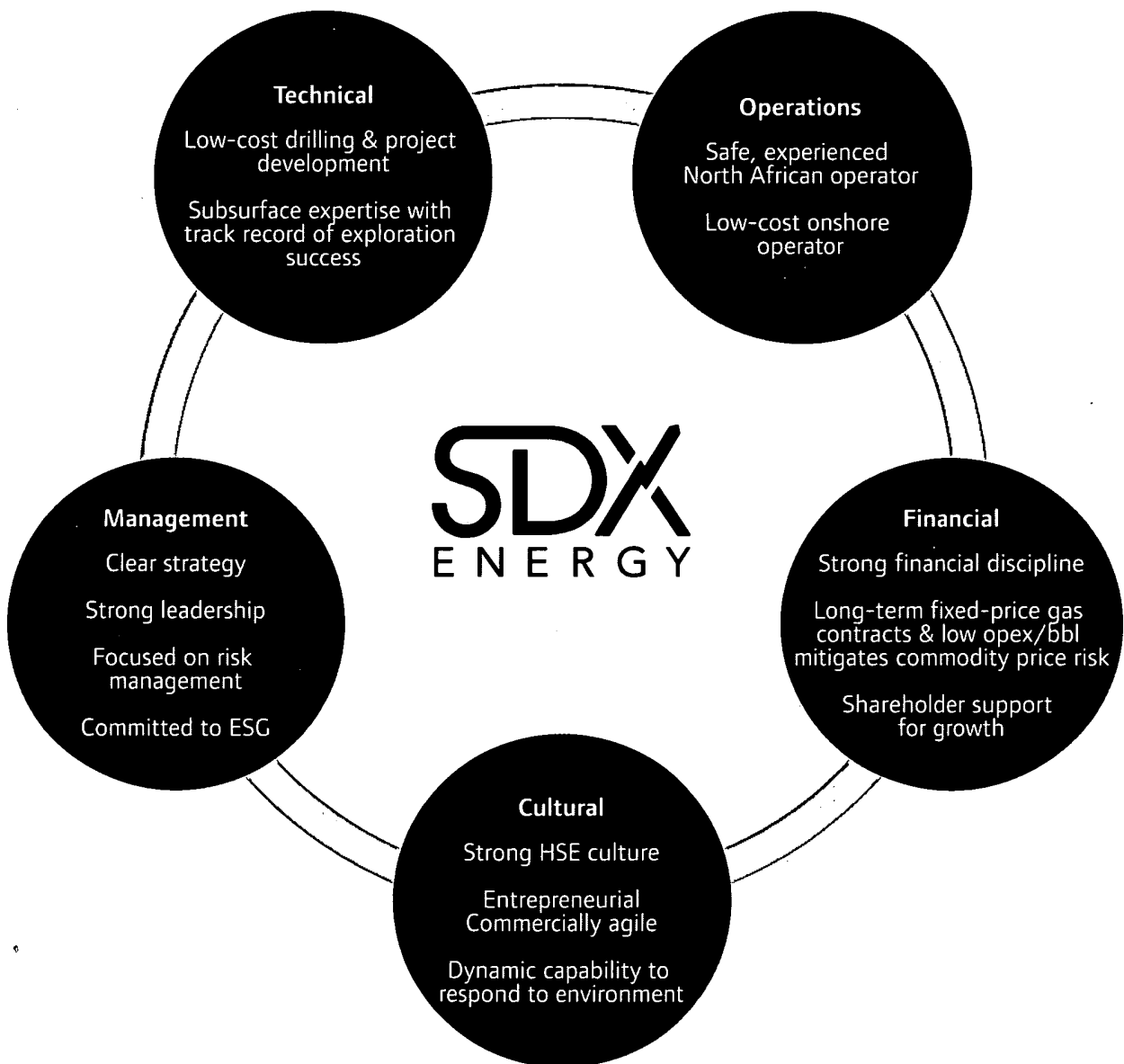


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Our Strategy

SDX's strategy is to leverage our existing organisational capabilities and competitive positions/relationships, supported by a strong ESG ethos, to access organic and inorganic, low-cost, high-margin opportunities which generate stable cash flows and self-funded upside. Our vision is to significantly grow the scale and value of the company in 3-5 years, creating stable cash flows and attractive growth opportunities by focusing on assets where we can genuinely add value. This will enable SDX to deliver on our purpose of supplying energy in an environmentally conscious manner to the benefit of all our stakeholders.

We will execute this strategy using our strategic capabilities across five areas:



Chairman's Statement

“
In what seems like a prolonged period of significant shifts in the macro environment, 2021 can be characterised as a phase of focus and delivery for SDX, as it met its guidance and showed that the portfolio is well equipped to deal with the volatility of its operating environment



Following on from a challenging period which saw the world transformed by COVID-19, 2021 was shaped by vaccine roll outs which helped the world begin to recover from the disruption wrought by the virus. For SDX, this meant that while there were some lingering, pandemic-related operational constraints that our teams were working under, we were able to plan and execute a significant programme of drilling in Morocco and on both the South Disouq and West Charib concessions in Egypt.

Early in the period I was very pleased to see our successful negotiation of a 10-year extension at the West Charib licence. The significance of this extension lies in our ability to rapidly increase our oil exposure through drilling and monetising targets in response to strengthening prices. As I write this statement the Brent oil price is well above US\$100 per barrel, so to be able to bring on liquids in such a short time frame is both very profitable and a very straightforward decision from a capital allocation perspective. I look forward to seeing our drilling campaign progress further in the coming year and truly believe that it will contribute substantially to our strong financial position as we increase production.

The first phase of our drilling campaign in Morocco in the period was successful with three out of three appraisal wells drilled and tied into

production facilities. As ever in Morocco, the correlation between the gas we are able to deliver to customers and the resulting displacement of more carbon intensive fuels is something we take pride in. It's also pleasing to report the figures that show this, Scope 3 greenhouse gas emissions in Morocco are 147,900 tons of CO₂e, which is approximately 75,000 tons of CO₂e less than using alternative heavy fuel oil. Another statistic, I am pleased to share is our operated asset carbon intensity of 3.0kg CO₂e/boe, which is one of the lowest rates in the industry and something we will look to maintain at these levels where possible.

At South Disouq, the Group received a two-year extension to the exploration area, which allows us to drill additional prospectivity, and we successfully drilled the IY-2X development well in July, with production brought on shortly after, maximising value from the field. We were disappointed with the Hanut-1X well result in August but, given its unique subsurface feature, it did not and will not have an impact on the remaining prospectivity. The upcoming activity in South Disouq features some significant exploration targets which we hope will mean we can further extend the life of this resilient asset. The South Disouq region has been integral to SDX in recent years and therefore it was fitting that we were able to support two hospitals close to the South Disouq operations by donating

monitors and BPAP ventilators to help local teams tackle the ongoing COVID-19 crisis and aid the longer-term health of the local communities.

As we look forward to the coming months, we have already hit the ground running in both corporate and operational activity. Our sale of a 33% interest in South Disouq which allows us to accelerate and crystallise value from this asset and prepare to return some of the proceeds to shareholders demonstrates management's belief in the value of the asset base that is not reflected in the share price, and that we are prepared to act in the best interest of stakeholders when we see a disconnect. In this regard I believe the governance of the Group has been at a continued high level and we will continue to approach the business as custodians of shareholder capital. I would like to thank all our wider stakeholders who have supported the business and helped it thrive in difficult circumstances. I believe that our continued focus on sustainable growth, dynamic business decisions and robust capital allocation will ensure that SDX thrives in a positive and sustainable manner.

Michael Doyle
Non-Executive Chairman
18 March 2022

Chief Executive Officer's Review

“
2021, in my opinion, was the year of overcoming challenges. Covid-19 followed us all into the new year, with continued restrictions, but thankfully the vaccine rollout brought a renewed hope not only to our industry, but the world-over.



I was and continue to be consistently impressed with the way in which SDX employees handled the ups and downs of the year, and, I'm pleased to report that the Company performed well, with production above mid-point guidance. Additionally, Netback and EBITDAX were 21% and 22% higher than the previous year, respectively, as we continued to focus on value maximisation activities and sensible balance sheet control which we continue to benefit from. We did, however, record impairment charges relating to South Disouq and Lalla Mimouna Nord, which resulted in a statutory loss for the year.

Operationally, we achieved successful drilling in South Disouq with the IY-2X development well being brought onto production swiftly to maximise value from the field. We faced disappointment with the Hanut well result at the same licence, but as stated at the time, we remain confident that it has little to no impact on the rest of the asset's geology so we will continue to develop the field. Also in Egypt, the first well of our West Charib 13 well campaign was spud in October with the entire program looking to bring on additional barrels of oil and take advantage of the higher oil price environment. Post period end, we have been able to announce the successful testing and tie in of this first well, together with encouraging logging results from the second well

of this campaign. As demonstrated by this campaign, we're in the fortunate position to have exposure to high commodity prices but protected from volatility through our long-term gas contracts. The West Charib programme proves we're able to move swiftly and without issue to ensure we, and our stakeholders, benefit from a healthy oil price.

In Morocco, we successfully drilled three wells out of three, all of which were tied into production infrastructure soon after drilling. Whilst we had some drilling issues with the fourth well of the campaign, we have been working to resolve this delay and expect to recommence drilling in early Q2 2022, targeting up to five wells in 2022.

As we've learnt from the past two years, we can never predict the future. Therefore, as a management team, we're constantly evaluating our business and the best use of our capital so as to protect our stakeholders and future-proof shareholder value against potential macro influences. Since our CFO Nick Box and I joined the company, we have taken this responsibility very seriously, and the question of whether to invest in our business or return capital to shareholders is one we ask ourselves every day. Therefore, following a review of our 2022 capital expenditure programme, we made the decision,

post-period, to dispose of 33% of the shares in the entity that holds our South Disouq asset for US\$5.5 million which was at a significant premium to the asset's value within our market capitalisation. As a result, a share buyback program of up to US\$3.0 million is planned to be initiated in the second half of the year, a capital allocation milestone we've been working towards.

Looking ahead, 2022 will be a year of great opportunity for SDX and I am very confident we will continue to meet and overcome challenges with efficiency and flexibility. Our healthy balance sheet provides a very strong foundation for a year of exciting exploration drilling and continued operational delivery and I believe that we will finish this year in an even stronger position. The share price performance has clearly been very disappointing and I and my board colleagues are focussed on reversing this trend. I would like to extend my thanks to our shareholders for their commitment throughout the period and to all of our wider stakeholders for the support they continue to give SDX.

Mark Reid
Chief Executive Officer and Director
18 March 2022



Review of Operations

Review of Operations

Health & Safety

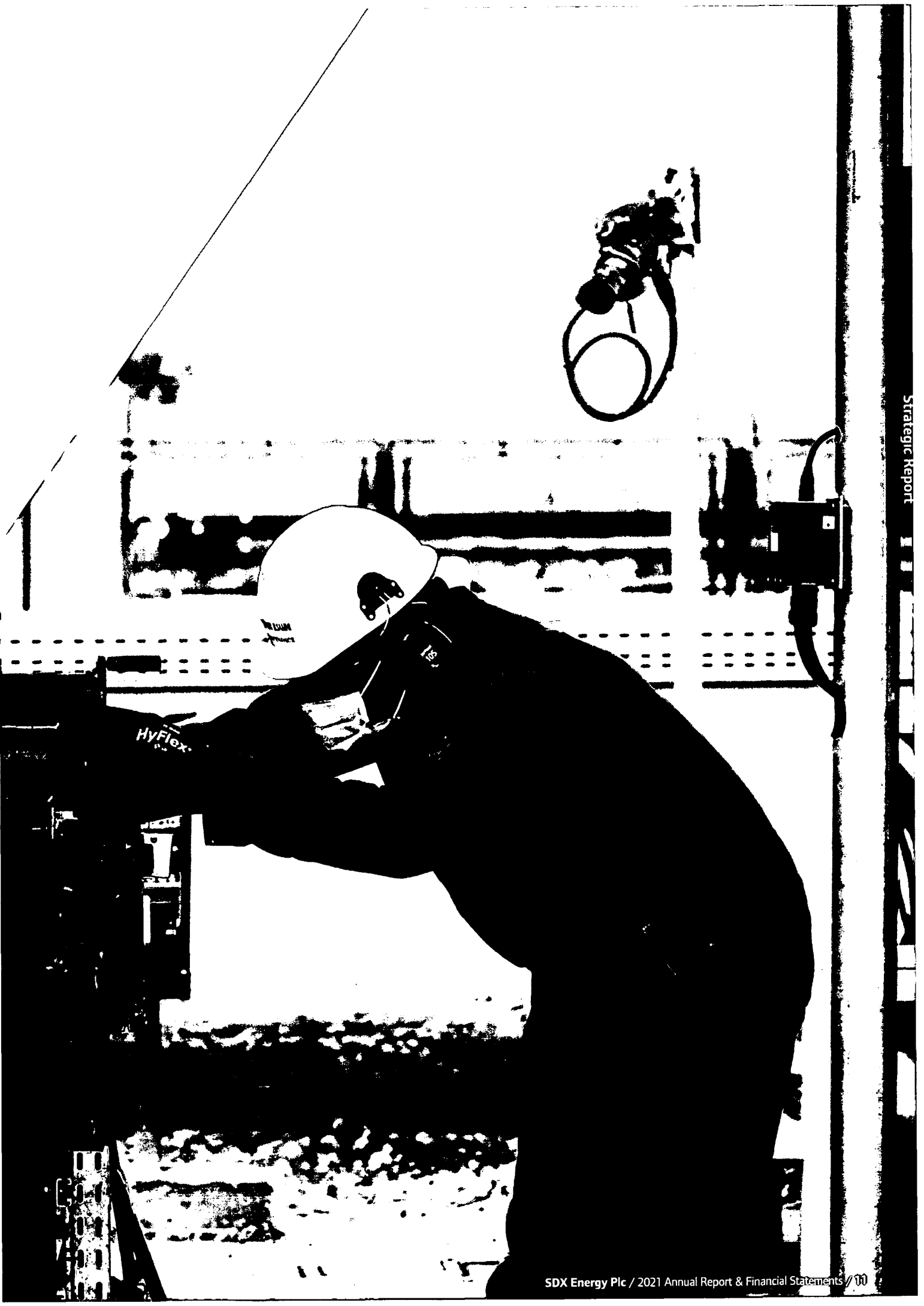
SDX is committed to protecting the safety of its employees, contractors, and the communities in which it operates.

Regrettably, there was one Lost Time Injury ("LTI") in Morocco during 2021. A contractor sustained a minor injury in a road traffic accident, but after a short period of observation was able to return to work. This LTI was the first incident in Morocco since SDX acquired the asset in 2017.

2021 was an incident and injury-free year for South Disouq after SDX made modifications to its safety management system during 2020.

SDX maintains process safety by having a robust programme of safety-critical device identification, maintenance, and performance testing. Despite the challenges of 2021, critical device maintenance compliance remained above our target of 98%. We regularly test the effectiveness of our incident management processes by conducting both live and simulated emergency response scenarios.





Review of Operations

continued

South Disouq / Egypt

South Disouq is a 115km² concession located 65km north of Cairo in the Nile Delta region.

South Disouq is a 115km² concession located 65km north of Cairo in the Nile Delta region. It is on trend with several other prolific gas fields in the Abu Madi Formation. SDX Energy holds a 55% interest and operates the concession, other than in the Ibn Yunus North field, in which it has a 100% interest. Its partner, IPR, holds a 45% interest in the asset (excluding Ibn Yunus North). In February 2022, it was announced that SDX has sold 33% of the shares in the entity that holds its interests across its South Disouq concession to Energy Flow Global, a private company with upstream and oilfield services activities in Egypt, the Middle East and Asia.

Development leases have been granted for the South Disouq (18km²), Ibn Yunus (24km²), and Ibn Yunus North gas fields (32km²). Production is currently from the Messinian-aged Abu Madi and Pliocene-aged Kafr El Sheikh formations. In addition, SDX operates the Amendment Concession Agreement Area, which is an exploration permit of 41km².

2021 Activity

Throughout 2021, planned field management operations were carried out on several of the existing wells. In the early part of the year, workovers were conducted on the SD-1X and SD-4X wells. SD-1X was recompleted to the shallower AM-I formation from the AM-III formation. The SD-4X well was successfully worked over to reduce water and sand production from the AM-III formation. Since the workovers both wells have been producing in line with expectation with less water and sand.

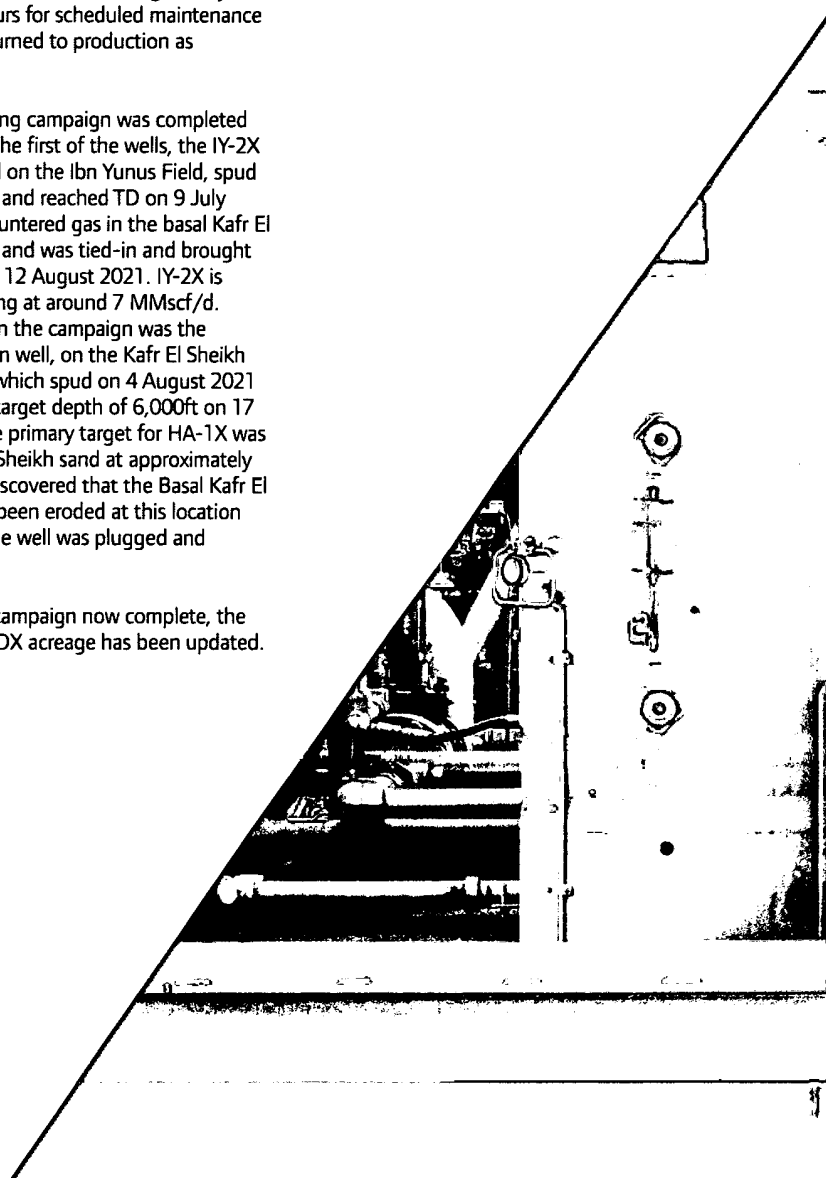
In July 2021, the Central Processing Facility was shut-in for 36 hours for scheduled maintenance and the asset returned to production as anticipated.

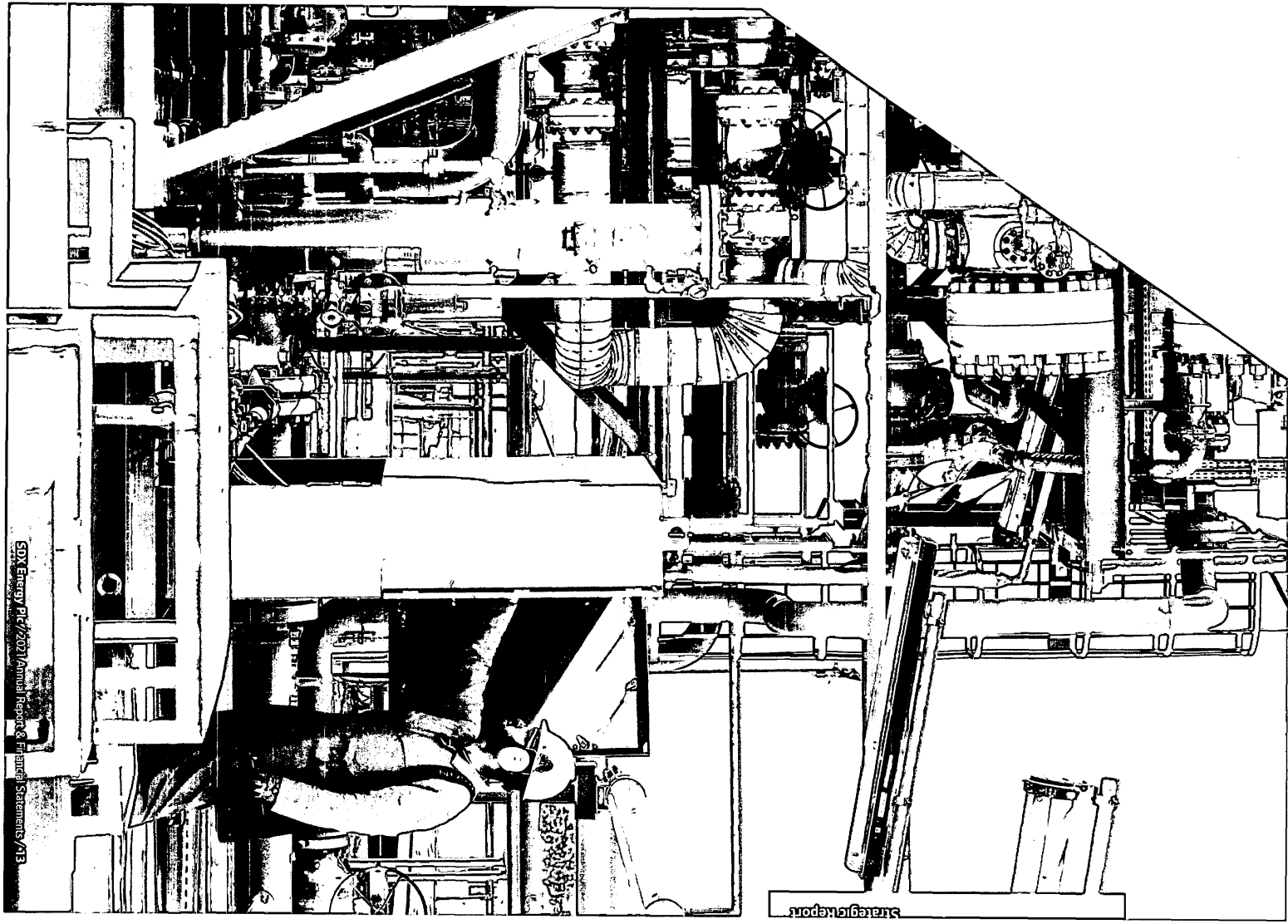
The planned drilling campaign was completed during the year. The first of the wells, the IY-2X development well on the Ibn Yunus Field, spud on 28 June 2021 and reached TD on 9 July 2021. IY-2X encountered gas in the basal Kafr El Sheikh formation and was tied-in and brought on production on 12 August 2021. IY-2X is currently producing at around 7 MMscf/d. The second well in the campaign was the HA-1X exploration well, on the Kafr El Sheikh Hanut prospect, which spud on 4 August 2021 and reached the target depth of 6,000ft on 17 August 2021. The primary target for HA-1X was the Basal Kafr El Sheikh sand at approximately 5,200 ft. It was discovered that the Basal Kafr El Sheikh sand had been eroded at this location and as a result, the well was plugged and abandoned.

With the drilling campaign now complete, the prospectivity in SDX acreage has been updated.

IY-2X

development well successfully drilled and brought on production in 2021







South Disouq / Egypt

/ continued

2021 Activity / continued

The SD-12X and SD-1X were put on compression in August to maximise the recovery from these wells. Following a comprehensive assessment of its productive history, SD-12X is now expected to produce lower volumes than previously estimated.

Production operations at the asset ended up at the higher end of expectations during the 12 months to 31 December 2021 resulting in gross production of 45.5 MMscfe/d for the year (4,465boe/d net to SDX).

4,465boe/d

FY2021 working interest production

2022 Outlook

Three wells will be drilled in 2022. The first, SD-5X, is an exploration well targeting the Warda prospect (P50 EUR 13bcf unrisked, with a CoS of 40%) in the South Disouq development lease. If successful, the SD-5X will be completed and rapidly tied back to the CPF via the existing SD-4X well. SD-5X will then be followed by the SD-12_East development well in the Ibn Yunus North development lease. SD-12_East is targeting an undrained compartment of the Sobhi Field and is expected to be completed and tied back to the CPF via SD-12X. The final well in the campaign is the MA-1X exploration well, which is targeting the Mohsen prospect (P50 EUR 21bcf unrisked, with a CoS of 45%). The MA-1X well is situated in the Amendment Concession Agreement Area to the south of the currently producing fields.

Workovers of the existing wells will continue, with the wells being recompleted to shallower reservoirs as the main reservoir becomes fully depleted. Additional wells will be brought on compression to maximise recovery from the existing reservoirs.

2022 capex is expected to be approximately US\$4.5-\$5.0 million net (of minority interest) to SDX. Gross of minority interest, capex guidance is US\$6.7-\$7.2 million.

2021 Operational Activity

| Prospect name | Working interest % | Interval | Concession detail | Comment | Unrisked mean (bcf) | Chance of success (%) ("CoS") |
|---------------------------------|--------------------------|--------------|---|-----------------------------|---------------------|-------------------------------|
| Mohsen | 67.0 | KES | 2 Year exploration extension | Single Target | 21 | 45 |
| El Deeb | 36.9-67.0 ⁽¹⁾ | Qawasim | 2 Year exploration extension | Single Target | 7 | 31 |
| Ibn Newton/Newton | 36.9-67.0 ⁽¹⁾ | KES/Abu Madi | 2 Year exploration extension | Dual Target | 7 | 27-40 |
| Shikabala prospects (two wells) | 67.0 | KES/Qawasim | Up to 25 Year Development Lease to 31 August 2045 | Single Target & Dual Target | 6 | 35-40 |
| Warda | 36.9 | KES | Up to 25 Year Development Lease to 2 January 2044 | Single Target | 11 | 40 |
| Total | | | | | 52 | |

(1) Working interest % dependant on partner's decision to participate in the extension.

West Gharib / Egypt

West Gharib is 22km² in area and is currently producing from the Meseda and Rabul fields, both of which are included in the Block-H development lease.

West Gharib is 22km² in area and is currently producing from the Meseda and Rabul fields, both of which are included in the Block-H development lease. The concession 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 in the operation, with Dublin International Petroleum, the operator, holding the remaining 50% working interest.

The Meseda field produces 18° API oil from the high-quality Miocene-aged Asl sands of the Rudeis formation. The Rabul field produces 16° API oil from the Miocene-aged Yusr and Bakr sands, which are also part of the Rudeis formation.

In 2021, a 10-year extension for both Meseda and Rabul was agreed with GPC, extending the licence to 9 November 2031. As part of the agreement, the contractors have a minimum commitment to drill six infill development wells (four in Meseda and two in Rabul) and one water-injection well in Rabul by 31 December 2022, and up to another six wells across the concession depending on the prevailing oil price. To take advantage of low drilling costs and the current oil price environment, however, the partnership is planning to drill 13 infill development wells over the next 18 to 24 months.

2021 Activity

Much of the activity in the West Gharib concession during 2021 was centred around the planning and preparation for the aforementioned infill drilling campaign. The first well of the campaign, MSD-21 producer, was spud in October and reached TD in mid-December. MSD-21 was then completed, tied-in and brought on-line.

Eight well workovers across the concession were completed during 2021.

For 2021, West Gharib average gross sales production stood at approximately 2,398boe/d (457boe/d net to SDX).

2022 Outlook

The infill campaign will continue throughout 2022, with the MSD-25 well spudding in late January. The goal of the 13 well campaign is to grow gross production back to around 3,000bbl/d.

As part of the drilling campaign, the partnership is looking at the potential of drilling an exploration well in the Rabul Field to test deeper known reservoirs. Planning for this well continues and, if approved, it will be drilled in H2 2022.

Workovers of the existing wells will continue throughout 2022 to maximise production and recovery from the Meseda and Rabul Fields.

2022 capex is expected to be approximately US\$4.5-\$5.0 million net to SDX.

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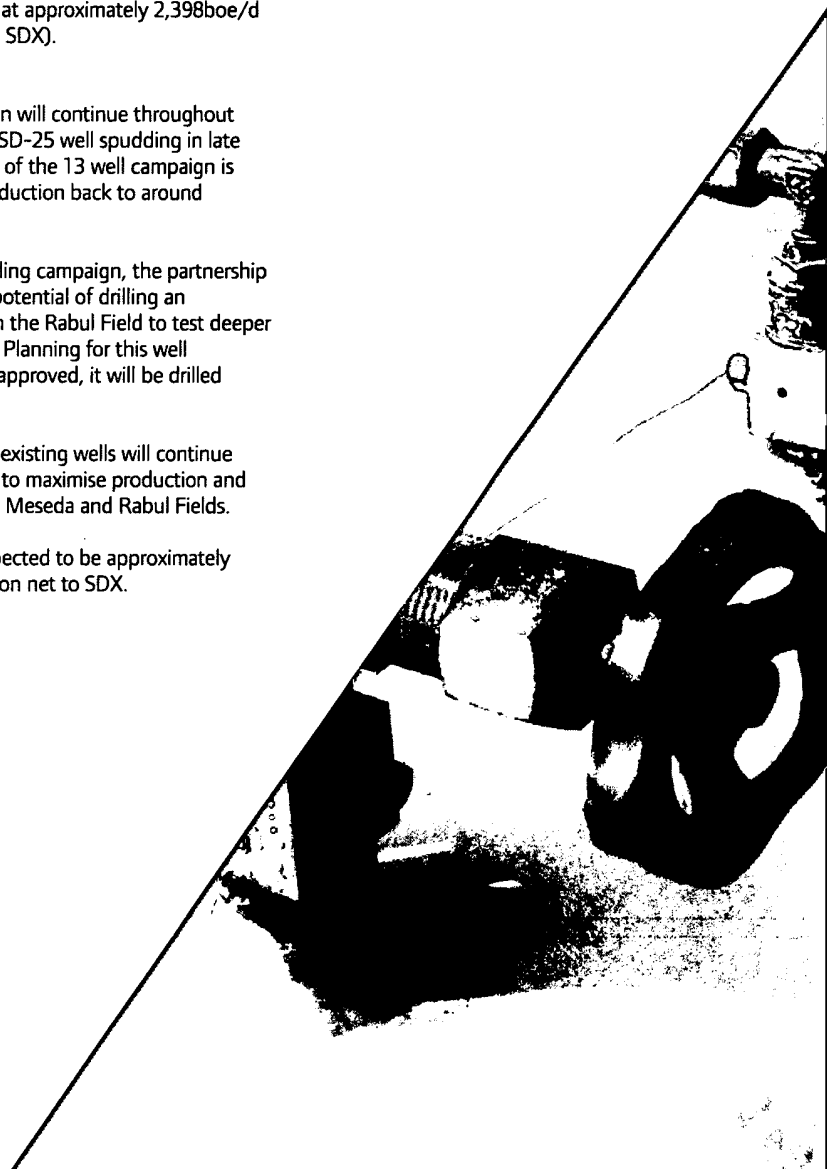
infill development well campaign kicked off in 2021

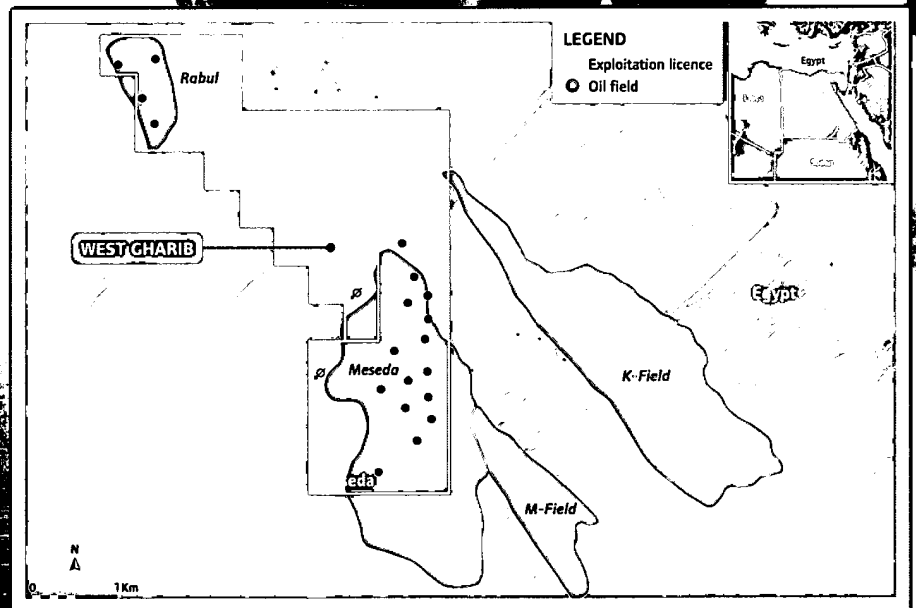
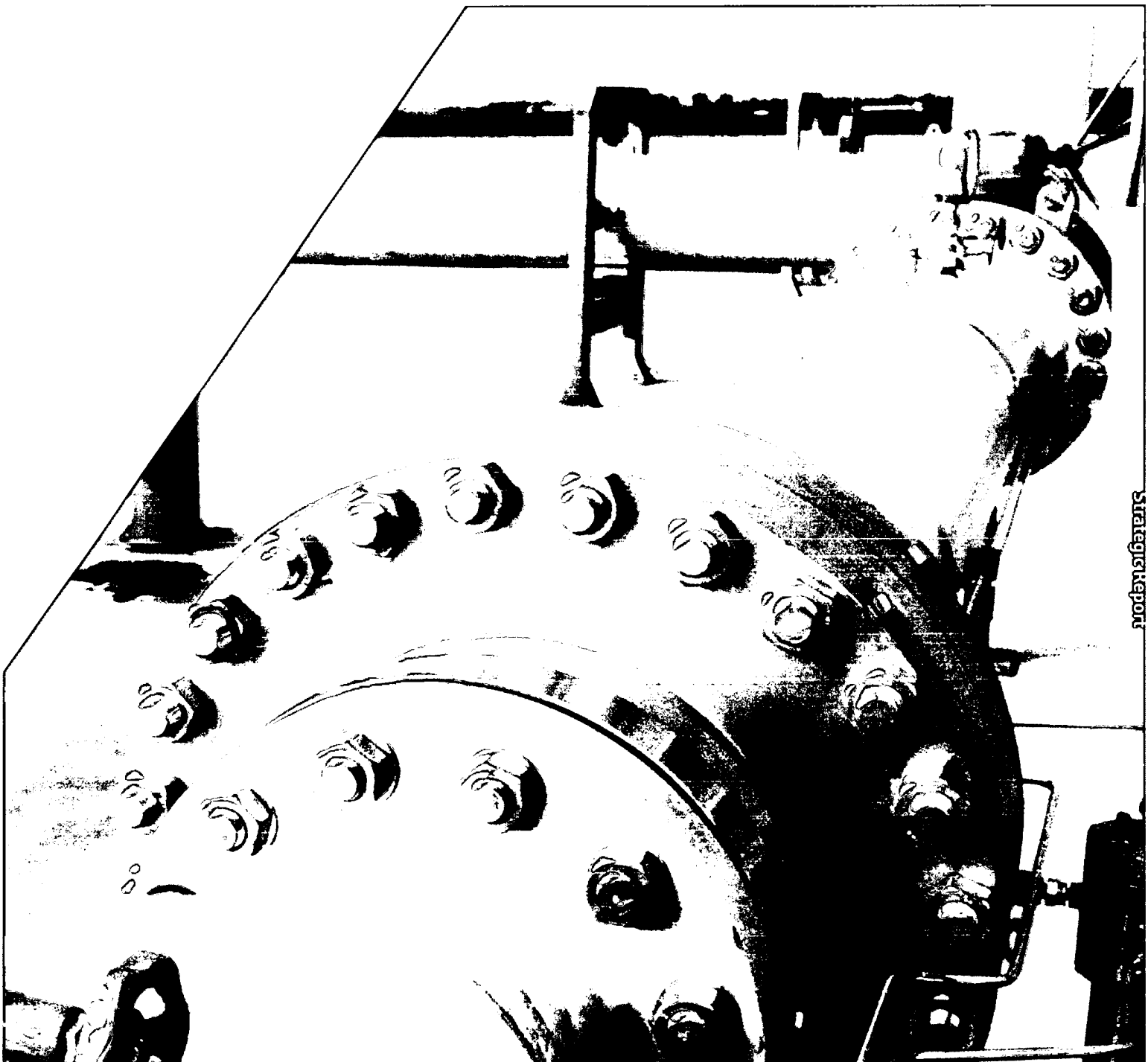
457 bbl/day

FY2021 working interest production

10 year

licence extension received in 2021





Morocco

The Company's Moroccan acreage (SDX 75% working interest and operator) now consists of four concessions, following the relinquishment of the Lalla Mimouna Nord acreage. All SDX's remaining concessions are in the Gharb Basin in northern Morocco: Sebou Central, Gharb Occidental, Lalla Mimouna Sud, and Moulay Bouchta Ouest.

In September 2021, according to the regulations governing Petroleum Agreements, SDX relinquished 40% of the original Sebou Central acreage and entered into the extension period of two years. The Sebou Central concession is now a 132km² exploration permit with several exploitation concessions contained within it. The exploitation concessions granted under the Sebou Onshore Petroleum Agreement are:

- Sidi Al Harati SW, expiry 20 September 2023
- Ksiri Central, expiry 18 January 2025
- Sidi Al Harati W, expiry 17 October 2024

Similar to the Sebou Central permit, SDX relinquished 40% of the original Gharb Occidental acreage in September 2021 and entered the first four-year extension period of the permit. The Gharb Occidental concession is now an 806km² exploration permit with upwards of 15 prospects and leads already identified on the existing 3D seismic, which covers the southern part of the permit.

The Lalla Mimouna area initially comprised the Lalla Mimouna Nord (1,371km²) and Lalla Mimouna Sud (847km²) permits. During 2021, SDX completed its evaluation of discoveries in the Lalla Mimouna Nord permit and decided not to renew the licence. This decision resulted in the recognition of a US\$10.3 million non-cash impairment charge in Q2 ahead of relinquishment. The Company has held the renewed Lalla Mimouna Sud permit (847km²) since February 2019. This permit has a duration of eight years, with a commitment to drill one exploration well and acquire 50km² of 3D seismic within the first two-and-a-half-year period, which started on 14 March 2019. In August 2021, the Company requested a force majeure extension of this period to September 2022. The Ministry of Energy is now evaluating the request with the support of ONHYM.

The Company was awarded the Moulay Bouchta Ouest exploration concession in February 2019 for a period of eight years. The commitment to reprocess 150km² of 2D seismic data, acquire 100km² of new 3D seismic, and drill one exploration well within the first three-and-a-half-year period, started on 14 March 2019.

2021 Activity

During the early part of 2021, five wells were worked-over to known gas bearing horizons in the wells to maximise recovery from our wells and to maintain supply to customers. Part of the strategy to maximise recovery is also the use and active management of the two compressors SDX operates in Morocco.

During the spring/summer, the Company completed the first phase of its 2021 drilling campaign which consisted of three appraisal/development wells, as follows:

- OYF-3 spud on 30 April 2021 and reached TD at 1,183 metres MD on 11 May 2021. The main Guebbas reservoir target was thicker than expected and encountered a 5.2 metre net gas sand. The well also encountered a 1.7 metre net gas sand in a secondary zone that OYF-3 will produce from after depletion of the primary zone.
- KSR-17 spud on 13 May 2021 and reached TD at 1,848 metres MD on 27 May 2021. In the main Hoot reservoir, the well encountered a 5.3 metre net gas sand which was slightly thinner than expected, but with good reservoir properties.
- KSR-18 spud on 30 May 2021 and reached TD at 1,905 metres MD on 14 June 2021. Both predicted targets (Mid Guebbas and Main Hoot) were successfully encountered, with the shallower Mid Guebbas target comprising a 3.8-metre net gas sand and the Main Hoot target encountering a 13.9-metre net gas sand. As expected, the Main Hoot had been slightly depleted by production from a nearby well. Further to these zones, a third 5.5-metre net gas sand was encountered at the Base Guebbas.

All three wells have been tested, connected, and are now producing into our infrastructure.

Late in 2021, the OMF-2 well was recompleted to the Upper Guebbas reservoir to fully exploit the reserves in the well. KSR-18, after depleting the Base Guebbas reservoir, was completed in the Main Hoot reservoir and brought back on to production.

Much of the work through the second half of the year focused on preparing for the second phase of the 2021 drilling campaign, which was to consist of two wells. The first well, KSR-19, was spud on 16 November. In December, SDX announced that due to operational issues affecting the drilling of the KSR-19 well and COVID-19 border restrictions impacting the mobilisation of equipment and personnel into Morocco, the two well campaign had been suspended and is now expected to complete in the first half of 2022. Management has assessed the carrying value of the suspended KSR-19 well which is disclosed in Note 9 of the Consolidated Financial Statements:

Morocco gross production averaged 7.7 MMscf/d for 2021, exceeding guidance for the year. The asset saw strong demand from all customers, reflecting a sustained return to normal levels of consumption following the COVID-19 shutdowns that affected 2020 production. The year also reflects additional consumption from an existing customer's second factory, which came online in December 2020.

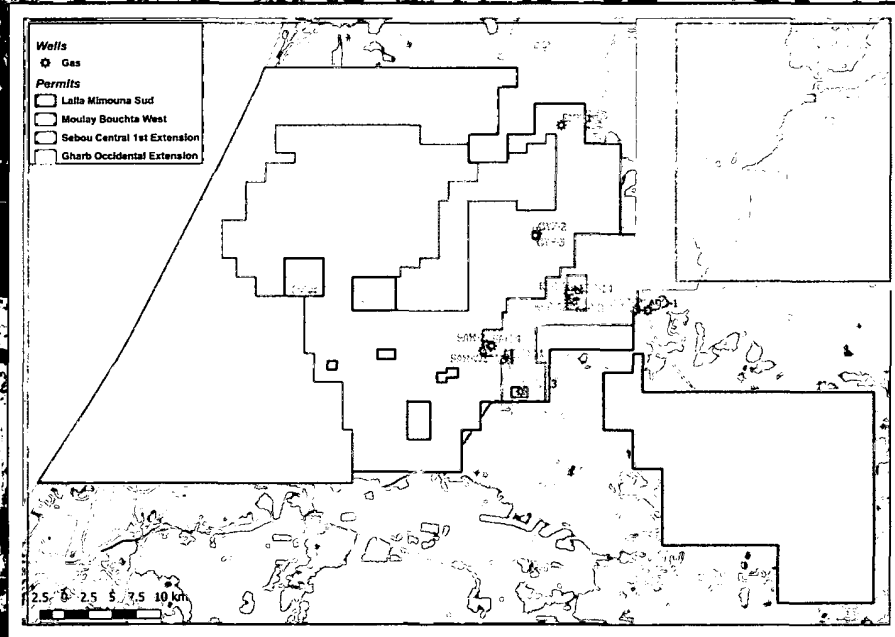
2022 Outlook

With the lifting of flight restrictions in Morocco, activity in the early part of 2022 will be focused on the drilling of the two wells postponed from 2021. The first well in the restarted campaign remains KSR-19, which will be followed by the SAK-1 well, which may open a new area for exploration and exploitation in later drilling campaigns.

Planning has started on further 2022 drilling, which will likely consist of an additional two wells to be drilled in H2 of 2022. Some of the wells will target low-risk near infrastructure prospects in the SDX core areas and some will target new areas or expand the footprint in the SAK area. All the wells will target shallow biogenic gas and will be rapidly tied into the existing infrastructure.

Workovers of existing wells, including re-perforation and sliding sleeve operations to exploit behind-pipe reserves, will continue throughout 2022. In addition, the two compressors will be actively managed to deliver the maximum recovery from the existing well stock.

2022 capex is expected to be approximately US\$12.5-\$13.0 million net to SDX.



Group proved plus
probable reserves
and contingent
resources

Group proved plus probable reserves and contingent resources

The proved and probable reserves and contingent resources of the SDX Energy Plc Group presented below are extracted from an independent technical and economic valuation of the Group's Egyptian and Moroccan assets performed by Gaffney, Cline & Associates which has an effective date of 31 December 2021.

The reserve definitions used are contained within the Petrol Resources Management System ("PRMS") as approved by the Society of Petroleum Engineers and the Canadian Oil and Gas Evaluation Handbook.

Gas reserves at as 31 December 2020 and 31 December 2021 have been converted to barrels of oil equivalent ("boe") using a factor of 6,000 cubic feet per boe for reporting and comparison purposes. Actual calorific value of produced gas may result in a different conversion factor for individual assets.

All figures below are SDX Energy working interest in MMboe:

| Asset | Egypt | | Morocco | Total |
|-------------------------------|--------------|-------------|-------------|-------------|
| | South Disouq | West Gharib | Charb Basin | |
| Working interest | 55/100% | 50% | 75% | |
| As at 31 December 2020 | 7.04 | 3.52 | 0.55 | 11.11 |
| Discoveries | - | - | 0.04 | 0.04 |
| Re-classification | - | 0.81 | - | 0.81 |
| Revisions | (2.44) | (0.32) | 0.16 | (2.60) |
| Production | (1.55) | (0.44) | (0.36) | (2.35) |
| As at 31 December 2021 | 3.05 | 3.57 | 0.39 | 7.01 |
| Proved reserves | 2.31 | 2.46 | 0.18 | 4.95 |
| Probable reserves | 0.74 | 1.11 | 0.21 | 2.06 |
| As at 31 December 2021 | 3.05 | 3.57 | 0.39 | 7.01 |

| Asset | Egypt | | Morocco | Total |
|--|--------------|-------------|-------------|-------------|
| | South Disouq | West Gharib | Charb Basin | |
| Working interest | 55/100% | 50% | 75% | |
| 2C contingent resources ⁽¹⁾ | 0.14 | - | 0.04 | 0.18 |
| As at 31 December 2021 | 0.14 | - | 0.04 | 0.18 |

¹ Unrisked 2C contingent resources disclosed. Risked 2C contingent resources are 0.10MMboe for South Disouq and 0.03MMboe for Charb Basin in Morocco.

Financial Review

For the year ended 31 December 2021 (prepared in US\$)

Operational and financial highlights

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

| US\$'000s | Prior quarter ⁽⁵⁾ | Three months ended 31 December | | Year ended 31 December | |
|---|------------------------------|--------------------------------|----------------|------------------------|------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| West Charib production service fee revenues | 2,064 | 2,379 | 1,855 | 9,219 | 7,328 |
| South Disouq gas sales revenue ⁽¹⁾ | 6,901 | 6,670 | 6,009 | 26,581 | 26,891 |
| Royalties | (2,331) | (2,250) | (2,026) | (8,974) | (9,115) |
| Net South Disouq gas revenue | 4,570 | 4,420 | 3,983 | 17,607 | 17,776 |
| Morocco gas sales revenue | 5,451 | 6,200 | 6,402 | 23,950 | 19,246 |
| Royalties | (156) | (83) | (278) | (431) | (730) |
| Net Morocco gas sales revenue | 5,295 | 6,117 | 6,124 | 23,519 | 18,516 |
| Net other products revenue | 938 | 969 | 570 | 3,515 | 2,448 |
| Total net revenue ⁽²⁾ | 12,867 | 13,885 | 12,532 | 53,860 | 46,068 |
| Direct operating expense | (2,378) | (2,375) | (2,817) | (9,732) | (9,535) |
| Netback: West Charib | 1,381 | 1,650 | 1,037 | 6,144 | 3,642 |
| Netback: South Disouq gas ⁽³⁾ | 3,362 | 3,393 | 2,820 | 12,954 | 13,740 |
| Netback: Morocco gas | 4,808 | 5,498 | 5,288 | 21,515 | 16,703 |
| Netback: Other products ⁽³⁾ | 938 | 969 | 570 | 3,515 | 2,448 |
| Netback (pre-tax) ^{(2) (6)} | 10,489 | 11,510 | 9,715 | 44,128 | 36,533 |
| EBITDAX ^{(3) (6)} | 9,826 | 10,253 | 8,745 | 39,993 | 32,874 |
| West Charib production service fee (bbl/d) | 387 | 410 | 589 | 457 | 626 |
| South Disouq gas sales (boe/d) | 4,360 | 4,210 | 3,790 | 4,245 | 4,286 |
| Morocco gas sales (boe/d) | 867 | 1,006 | 1,038 | 964 | 812 |
| Other products sales (boe/d) | 223 | 219 | 215 | 220 | 246 |
| Total sales volumes (boe/d) ⁽⁴⁾ | 5,837 | 5,845 | 5,632 | 5,886 | 5,970 |
| West Charib production service fees (bbls) | 35,645 | 37,705 | 54,159 | 166,814 | 229,275 |
| South Disouq gas sales (boe) | 401,156 | 387,312 | 348,698 | 1,549,354 | 1,568,735 |
| Morocco gas sales (boe) | 79,788 | 92,511 | 95,508 | 352,034 | 297,026 |
| Other products sales (boe) | 20,525 | 20,151 | 19,824 | 80,181 | 90,196 |
| Total sales volumes (boe) ⁽⁴⁾ | 537,114 | 537,679 | 518,189 | 2,148,383 | 2,185,232 |
| Brent oil price (US\$/bbl) | \$73.50 | \$79.63 | \$44.24 | \$70.69 | \$40.88 |
| West Charib oil price (US\$/bbl) | \$68.12 | \$74.06 | \$40.38 | \$65.76 | \$37.46 |
| Realised West Charib service fee (US\$/bbl) | \$57.90 | \$63.10 | \$34.25 | \$55.27 | \$31.96 |
| Realised Morocco gas price (US\$/mcf) | \$11.39 | \$11.17 | \$11.17 | \$11.34 | \$10.80 |
| Royalties (US\$/boe) ⁽²⁾ | \$5.41 | \$5.23 | \$4.87 | \$5.12 | \$4.94 |
| Operating costs (US\$/boe) ⁽²⁾ | \$4.43 | \$4.42 | \$5.44 | \$4.53 | \$4.36 |
| Netback (US\$/boe) ⁽²⁾ | \$19.53 | \$21.41 | \$18.75 | \$20.54 | \$16.72 |
| Capital expenditures | 3,806 | 8,129 | 3,033 | 27,774 | 24,733 |

(1) South Disouq gas is sold to the Egyptian State at a fixed price of \$2.65MM/btu, which equates to approximately \$2.85/Mcf.

(2) The NW Gemsa and South Ramadan concessions have been recognised as discontinued operations in the year ended 31 December 2020. All revenues, costs and taxation from these assets have been consolidated into a single line item "profit/(loss) from discontinued operations" in the year ended 31 December 2020 reported and are not included in this table. Royalties/boe, operating costs/boe and Netback/boe also exclude NW Gemsa and South Ramadan.

(3) When calculating Netback for South Disouq gas and other products (condensate), all South Disouq operating costs are allocated to gas, as associated products have assumed nil incremental operating costs.

(4) The NW Gemsa and South Ramadan concessions have been recognised as discontinued operations in the year ended 31 December 2020. Total sales volumes of 139,949boe (382boe/d) relating to NW Gemsa and 16,427boe (45boe/d) relating to South Ramadan in the year ended 31 December 2020 have been excluded in this table.

(5) Three months ended September 2021

(6) Netback and EBITDAX are non-IFRS measures and are defined on page 28.

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

WEST GHARIB PRODUCTION SERVICE FEE REVENUES

The Company recorded service fee revenue relating to the oil production that is delivered to the State Oil Company ("GPC") from the Meseda and Rabul areas of Block H. The Company is entitled to a service fee of between 19.00% 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.

Production service fee pricing

For the three months and the year ended 31 December 2021, the Company received an average service fee per barrel of oil of US\$63.10 and US\$55.27 respectively, compared to the average West Gharib prices for the periods of US\$74.06 and US\$65.76, representing a discount of US\$10.96 (15%) and US\$10.49 (16%) per barrel. The Company receives a discount on the West Gharib oil price because of the quality of the oil produced.

| | Prior quarter | Three months ended 31 December | | Year ended 31 December | |
|--|---------------|--------------------------------|--------|------------------------|---------|
| | | 2021 | 2020 | 2021 | 2020 |
| Production service fee revenues (\$'000s) | 2,064 | 2,379 | 1,855 | 9,219 | 7,328 |
| Realised service fee per bbl (\$/bbl) | 57.90 | 63.10 | 34.25 | 55.27 | 31.96 |
| West Gharib production service fees (bbls) | 35,645 | 37,705 | 54,159 | 166,814 | 229,275 |

Production service fee variance from prior year

For the year ended 31 December 2021 (compared to the year ended 31 December 2020), the increase in production service fee revenue, to US\$9.2 million, was driven by an increase in price of US\$3.9 million, 53%, which was partly offset by a decrease in production from 626bbl/d to 457bbl/d (US\$2.0 million). The lower production is owing to an increase in water cut across several wells and natural decline, which is partly offset by the contribution from a new well that came into production after the first quarter of 2020 (RB-3) and well workover results.

US\$'000s

| | |
|------------------------------------|--------------|
| Year ended 31 December 2020 | 7,328 |
| Price variance | 3,887 |
| Production variance | (1,996) |
| Year ended 31 December 2021 | 9,219 |

Production service fee variance from prior quarter

For the three months ended 31 December 2021 (compared to the three months ended 30 September 2021), the increase in production service fee revenue of US\$0.3 million, 14%, to US\$2.4 million, was due to a US\$5.20/bbl increase in the realised service fee per bbl (US\$0.2 million) and to an increase in production from 387bbl/d to 410bbl/d (US\$0.1 million) as the result of the recompletion of RB-7 late in Q3, partly offset by the normal increase in water cut in the other wells.

US\$'000s

| | |
|--|--------------|
| Three months ended 30 September 2021 | 2,064 |
| Price variance | 196 |
| Production variance | 119 |
| Three months ended 31 December 2021 | 2,379 |

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

SOUTH DISOUQ GAS SALES REVENUE

The Company sells gas production from the South Disouq concession to the Egyptian national gas company, EGAS, at a fixed price of US\$2.65/MMbtu, approximately US\$2.85/Mcf. The Government of Egypt's entitlement share of gross production from the asset equates to approximately 51%.

South Disouq gas sales variance from prior year

For the year ended 31 December 2021 (compared to the year ended 31 December 2020), the decrease in South Disouq gas sales revenue of US\$0.3 million, 1%, was the result of a decrease in sales volumes of 41boe/d. The decrease in production was caused by increased water and sand production due to natural field decline, downtime for a recompletion of SD-1X and a scheduled workover of SD-4X, all of which were partly offset by volumes from SD-12X, which came into production in December 2020, and volumes from IY-2X which came into production at the end of August 2021.

South Disouq gas sales variance from prior quarter

For the three months ended 31 December 2021 (compared to the three months ended 30 September 2021), the decrease in South Disouq gas sales revenue of US\$0.2 million, 3%, was the result of a decrease in sales volumes of 150boe/d. The decrease in production is due to natural field decline, partly offset by higher volumes from IY-2X, which came into production at the end of August 2021.

Planned maintenance of the CPF was successfully carried out in July 2021 and production returned to normal after a 36-hour shutdown period. There was no further scheduled or unscheduled downtime at the Central Processing Facility ("CPF") during the year ended 31 December 2021.

MOROCCO GAS SALES REVENUE

The Company currently sells natural gas to eight industrial customers in Kenitra, northern Morocco. In December 2020 an existing customer brought its second factory online which contributed to increased sales volumes in 2021.

Morocco gas sales variance from prior year

For the year ended 31 December 2021 (compared to the year ended 31 December 2020), the increase in Morocco gas sales revenue of US\$4.8 million, 25%, was driven by the US\$3.6 million impact of production increasing period on period by 152boe/d, 19%, reflecting a recovery from the COVID-19 shutdowns that affected three customer sites in the previous year and the impact of an existing customer bringing a second factory online at the end of 2020. In addition, sales realisations increased by US\$1.1 million as the result of the strengthening Moroccan dirham and increased sales to higher-priced contracts.

US\$'000s

| | |
|------------------------------------|---------------|
| Year ended 31 December 2020 | 19,246 |
| Price variance | 1,140 |
| Production variance | 3,564 |
| Year ended 31 December 2021 | 23,950 |

Morocco gas sales variance from prior quarter

For the three months ended 31 December 2021 (compared to the three months ended 30 September 2021), the increase in Morocco gas sales revenue of US\$0.7 million, 13%, was driven by an increase in production of US\$0.9 million, which was caused by strong demand from all customers, particularly in December 2021. The production increase was partly offset by a slight decrease in the realised Moroccan gas price, caused by the strengthening of the US dollar in the fourth quarter of 2021, resulting in an unfavorable price variance of US\$0.1 million.

US\$'000s

| | |
|--|--------------|
| Three months ended 30 September 2021 | 5,451 |
| Price variance | (121) |
| Production variance | 870 |
| Three months ended 31 December 2021 | 6,200 |

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

Royalties

Royalties fluctuate in Egypt from quarter to quarter as the result of changes in production and the impact of commodity prices on the amount of cost oil or gas allocated to the contractors. In turn, there is an impact on the amount of profit oil or gas from which royalties are calculated.

In Morocco, sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession.

Direct operating costs

Direct operating costs for the year ended 31 December 2021 were US\$9.7 million, compared to US\$9.5 million for the prior year.

The direct operating costs per concession were:

| US\$'000s | Prior quarter | Three months ended 31 December | | Year ended 31 December | |
|---------------------------------------|---------------|--------------------------------|--------------|------------------------|--------------|
| | | 2021 | 2020 | 2021 | 2020 |
| West Charib | 683 | 729 | 820 | 3,075 | 3,686 |
| South Disouq | 1,208 | 1,027 | 1,162 | 4,653 | 4,036 |
| Morocco | 487 | 619 | 835 | 2,004 | 1,813 |
| Total direct operating expense | 2,378 | 2,375 | 2,817 | 9,732 | 9,535 |

The direct operating costs per boe per concession were:

| US\$/boe | Prior quarter | Three months ended 31 December | | Year ended 31 December | |
|---|---------------|--------------------------------|-------------|------------------------|-------------|
| | | 2021 | 2020 | 2021 | 2020 |
| West Charib | 19.16 | 19.33 | 15.15 | 18.43 | 16.08 |
| South Disouq | 2.86 | 2.52 | 3.15 | 2.86 | 2.43 |
| Morocco | 6.10 | 6.69 | 8.74 | 5.69 | 6.10 |
| Total direct operating costs per boe | 4.43 | 4.42 | 5.44 | 4.53 | 4.36 |

West Charib

Direct operating costs per bbl for the year ended 31 December 2021 for West Charib were higher at US\$18.43/bbl, compared to US\$16.08/bbl in the prior year, due to lower production and a smaller decline in operating costs. In the three months ended 31 December 2021, the direct operating cost per bbl increased by US\$0.17/bbl, 1%, compared to the prior quarter due a higher cost base, partly offset by increased production.

South Disouq

Direct operating costs per boe for the year ended 31 December 2021 for South Disouq increased by US\$0.43/boe, 18%, to US\$2.86/boe compared to US\$2.43/boe in the prior year. The increase is the result of higher water and sand handling costs in the first half of 2021 for the SD-1X and SD-4X wells combined with lower production during the year. In the three months ended 31 December 2021, the direct operating costs per boe decreased by US\$0.34/boe, 12%, compared to the prior quarter. The decrease is the result of lower allocated costs, which were partly offset by lower production during the quarter.

Morocco

Direct operating costs for the year ended 31 December 2021 were US\$0.2 million higher than the comparative period of the prior year as the result of higher operational expenditure for the relocation and the connection costs associated with two compressors. The compressors are moved around the operations periodically to enhance gas recovery by further depleting wells that have ceased to flow naturally. In the three months ended 31 December 2021, the direct operating costs per boe increased by US\$0.59/boe, 10%, compared to the prior quarter because of higher operational expenditure for the relocation of a compressor and higher operational insurance costs.

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

General and administrative expenses

| US\$'000s | Year ended 31 December | |
|---|------------------------|--------------|
| | 2021 | 2020 |
| Wages and employee costs | 6,180 | 6,527 |
| Consultants - inc. PR/IR | 503 | 514 |
| Legal fees | 455 | 225 |
| Audit, tax and accounting services | 815 | 767 |
| Public company fees | 634 | 576 |
| Travel | 132 | 156 |
| Office expenses | 677 | 492 |
| IT expenses | 326 | 360 |
| Service recharges | (5,471) | (5,645) |
| Ongoing general and administrative expenses | 4,251 | 3,972 |
| Transaction costs | - | 152 |
| Total net G&A | 4,251 | 4,124 |

Ongoing general and administrative ("G&A") costs for the year ended 31 December 2021 were US\$4.3 million, compared to US\$4.0 million for the prior year, primarily due to higher legal fees in Morocco, corporate D&O insurance, cost inflation on professional services and early termination charges on vehicle leases. These increases were partly offset by lower wages and employee costs, given that the increase in salaries and wages, recruitment costs for three employees and employee departure settlement costs were more than offset by a reduction in corporate bonuses and expatriate benefits in Morocco.

Transaction costs in the prior year related to professional services relating to the disposals of the NW Gemsa and South Ramadan assets.

Capital expenditures

The following table shows the capital expenditure for the Company. It agrees with notes 8 and 9 to the Consolidated Financial Statements for the year ended 31 December 2021, which include discussion therein.

| US\$'000s | Year ended 31 December | |
|---|------------------------|---------------|
| | 2021 | 2020 |
| Property, plant and equipment expenditures ("PP&E") | 18,161 | 14,438 |
| Exploration and evaluation expenditures ("E&E") | 9,482 | 10,192 |
| Office furniture and fixtures | 131 | 103 |
| Total capital expenditures | 27,774 | 24,733 |

The Company has future capital commitments associated with its oil and gas assets, details of which can be found in note 22 to the Consolidated Financial Statements.

Exploration and evaluation expense

For the year ended 31 December 2021, exploration and evaluation expenses stood at US\$14.1 million, compared to US\$5.8 million in the previous year.

The current period expense relates mainly to:

- the US\$10.3 million non-cash impairment charge ahead of the relinquishment of the Lalla Mimouna Nord concession;
- the write-off of US\$1.3 million for the Hanut-1X dry well drilled in South Disouq in Q3 2021, including associated seismic costs (US\$0.2 million) and its share of the concessions signature bonus (US\$0.4 million);
- a US\$0.7 million write-off of decommissioning assets for the Moroccan operations, following a review of assumptions;
- a US\$0.2 million provision for obsolete inventory; and
- new business evaluation activities of US\$1.6 million.

The prior year expense relates mainly to:

- the US\$2.3 million write-off of a non-commercial well, SD-6X (Salah), including associated seismic costs, which was drilled during the Q1 2020 South Disouq exploration drilling campaign;
- the write-off of US\$2.2 million for a non-commercial well, SAH-5, which was drilled in Q1 2020 as part of the Morocco drilling campaign; and
- new business evaluation activities of US\$1.3 million.

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

Depletion, depreciation and amortisation

For the year ended 31 December 2021, depletion, depreciation, and amortisation ("DD&A") amounted to US\$32.6 million, compared to US\$25.2 million in the previous year.

| US\$'000s | Year ended 31 December | |
|-----------------------|------------------------|---------------|
| | 2021 | 2020 |
| West Gharib | 1,606 | 2,314 |
| South Disouq | 15,442 | 11,963 |
| Morocco | 14,945 | 10,147 |
| Right of use assets | 573 | 636 |
| Other | 58 | 132 |
| Total DD&A | 32,624 | 25,192 |

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

- The decrease of US\$0.7 million in DD&A for West Gharib for the year ended 31 December 2021 compared to the prior year, is the result of lower production.
- The DD&A for South Disouq was US\$15.4 million for the year ended 31 December 2021, an increase of US\$3.4 million compared to the prior year. This increase is mainly due to the accelerated depreciation of the SD-12X borehole costs. It was concluded that the SD-12X well would not fully deplete the reserves in the Sobhi field and that an additional well, SD-12_East, will be required, which is expected to be drilled in 2022. As a result, the DD&A rate of the SD-12X well has been increased in line with the smaller portion of the Sobhi field reserves that it will access.
- The increase of US\$4.8 million in DD&A for Morocco during the year ended 31 December 2021 compared to the prior year, is the result of downward revision to the reserves base at the start of 2021, which is partly offset by a lower depreciable asset base.
- The DD&A for right-of-use assets was US\$0.6 million and is related to the recognition of leases under IFRS 16. Please refer to note 20 in the Consolidated Financial Statements.

Impairment expense

Following the results of the 2021 drilling campaign, and a downward revision to the asset's recoverable reserves as at 31 December 2021, management tested the South Disouq asset for impairment, resulting in an impairment expense of US\$9.5 million. Please see note 8 to the Consolidated Financial Statements for further discussion.

Sources and uses of cash

The Company reported a cash position of US\$10.6 million as at 31 December 2021, with an undrawn facility with the European Bank for Reconstruction and Development ("EBRD") with availability of US\$4.8 million.

The following table sets out the Company's sources and uses of cash for the year ended 31 December 2021 and 2020:

| US\$'000s | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2021 | 2020 |
| Sources | | |
| Operating cash flow before working capital movements | 32,848 | 25,734 |
| Operating cash flow from discontinued operations | - | 2,445 |
| Net proceeds from sale of assets | - | 3,500 |
| Dividends received | 522 | 773 |
| Effect of foreign exchange on cash and cash equivalents | - | 369 |
| Total sources | 33,370 | 32,821 |
| Uses | | |
| Changes in non-cash working capital | (3,857) | (3,272) |
| Property, plant and equipment expenditures | (18,947) | (18,188) |
| Exploration and evaluation expenditures | (8,675) | (10,333) |
| Payments of lease liabilities | (664) | (636) |
| Finance costs paid | (197) | (269) |
| Income taxes paid | (324) | (1,121) |
| Effect of foreign exchange on cash and cash equivalents | (200) | - |
| Total uses | (32,864) | (33,819) |
| Increase/(decrease) in cash and cash equivalents | 506 | (998) |
| Cash and cash equivalents at beginning of period | 10,056 | 11,054 |
| Cash and cash equivalents at end of period | 10,562 | 10,056 |

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

Going concern

Accounting standards in the UK require the directors to make an assessment of the Group's ability to continue to operate as a going concern for the foreseeable future, which covers a period of at least 12 months from the date of approval of the Consolidated Financial Statements. The board considered an extended period out to 31 December 2023 (21 months) which aligned with the board's review of the Group's forecasted cash flows.

The capital expenditure and operating costs used in these forecasted cash flows are based on the board's best estimate, including the Group's board-approved 2022 SDX corporate budget, which reflects approved operating budgets for each of its assets and an estimate of 2022 SDX corporate general and administrative expenses. The directors have made enquiries into and considered the Egyptian and Moroccan business environments and future expectations regarding commodity price risk, particularly the oil price risk, given the volatility in quoted Brent and WTI crude oil prices.

The Group has renewed its relationship with EBRD through the agreement of a new, five-year reserves-based lending facility. Conditions precedent were met in 2021 and the facility currently has US\$4.8 million of availability at 31 December 2021. This availability is likely to reduce, with the next redetermination scheduled for Q2 2022. The board has not included any drawdown of this lending facility, in neither its base case nor any sensitivities, in its going concern review.

The directors have considered the impact on the forecasted cash flows of the volatile oil price environment and potential impact on demand resulting from, among other factors, the COVID-19 virus, climate change, and counterparty credit risk. The directors have performed sensitivity analysis on these forecasted cash flows and note that the Group's underlying long-term fixed-price contracts in the Gharb Basin gas fields in Morocco and South Disouq in Egypt, as well as cash to be received from the partial sale of South Disouq, reduce the potential risk on going concern.

The following individual severe but plausible downside sensitivities were prepared using the following key assumptions:

- Underperformance of the South Disouq CGU with a decrease in overall production of 20% in 2022 and 40% in 2023;
- future Brent oil price decrease to US\$50/bbl for the whole duration of the period April 2022-December 2023;
- 25% reduction in demand from three of our customers in Morocco who have been impacted by the global semiconductor shortage in 2021 as climate change, which is contributing to increases in frequency and severity of droughts in some parts of the world, including countries where these microchips are manufactured, might exacerbate and prolong the global semiconductor shortage in 2022/2023;
- 50% reduction in demand from all customers in Morocco from October 2022-March 2023 due to potential disruption of a new COVID-19 variant, partly mitigated by a four-month deferral of 50% of capital expenditure during that period; and
- a combination sensitivity of the first three individual sensitivities described above.

In both the base and the severe but plausible downside sensitivity scenarios, the forecasts indicated that there was sufficient headroom and sufficient liquidity for the Group to continue its operations in the foreseeable future, being defined not less than 12 months from the date of approval of these Consolidated Financial Statements. The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend and rationalising its overhead base.

As a result, the directors consider that the Group has sufficient resources at its disposal to continue for the foreseeable future and have concluded that these Consolidated Financial Statements continue to be prepared under the going concern basis of accounting.

Non-IFRS measures

The Financial Review contains the terms "Netback" and "EBITDAX", which are not recognised measures under IFRS. The Company uses these measures to help evaluate its performance. Please see note 19 to the Consolidated Financial Statements for a reconciliation of these non-IFRS measures to IFRS.

Netback

Netback is a non-IFRS measure that represents sales net of all operating expenses and government royalties. Management believes Netback to be a useful supplemental measure by which to analyse operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Management considers netback an important measure because it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures other companies use.

EBITDAX

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

Financial Review / continued

For the year ended 31 December 2021 (prepared in US\$)

Summary of quarterly results

| Fiscal year Financial US\$'000s | 2021 | | | | 2020 | | | |
|-------------------------------------|----------|---------|----------|---------|---------|---------|---------|---------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Cash, beginning of period | 9,789 | 9,108 | 9,734 | 10,056 | 11,054 | 9,275 | 8,807 | 11,054 |
| Cash, end of period | 10,562 | 9,789 | 9,108 | 9,734 | 10,056 | 11,054 | 9,275 | 8,807 |
| Net revenue | 13,885 | 12,867 | 13,725 | 13,383 | 12,532 | 11,586 | 9,163 | 12,787 |
| Comprehensive (loss)/income | (11,809) | (2,060) | (10,699) | 613 | 149 | 1,747 | (801) | (3,153) |
| Net (loss)/income per share - basic | (0.057) | (0.010) | (0.052) | 0.003 | 0.001 | 0.009 | (0.004) | (0.015) |
| Capital expenditure | 8,129 | 3,806 | 11,875 | 3,964 | 2,672 | 2,689 | 3,840 | 15,533 |
| Total assets | 98,415 | 108,706 | 114,645 | 123,788 | 124,603 | 127,611 | 129,231 | 135,648 |
| Shareholders' equity | 72,654 | 84,450 | 86,430 | 97,079 | 96,342 | 96,452 | 94,390 | 95,123 |
| Common shares outstanding (000's) | 205,378 | 205,378 | 205,378 | 205,378 | 205,378 | 205,378 | 204,723 | 204,723 |

| Fiscal year Operational | 2021 | | | | 2020 | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| NW Gemsa oil sales (bbl/d) ⁽¹⁾ | - | - | - | - | - | - | - | 1,538 |
| West Charib production service fee (bbl/d) | 410 | 387 | 490 | 543 | 589 | 623 | 628 | 666 |
| South Disouq gas sales (boe/d) | 4,210 | 4,360 | 4,313 | 4,094 | 3,790 | 4,246 | 4,401 | 4,713 |
| Morocco gas sales (boe/d) | 1,006 | 867 | 964 | 1,023 | 1,038 | 792 | 551 | 863 |
| Other products sales (boe/d) | 219 | 223 | 235 | 202 | 242 | 323 | 318 | 282 |
| Total boe/d | 5,845 | 5,837 | 6,002 | 5,862 | 5,659 | 5,984 | 5,898 | 8,062 |
| NW Gemsa oil sales volumes (bbls) ⁽¹⁾ | - | - | - | - | - | - | - | 139,949 |
| West Charib production service fee volumes (bbls) | 37,705 | 35,645 | 44,550 | 48,914 | 54,159 | 57,309 | 57,166 | 60,641 |
| South Disouq gas sales (boe) | 387,312 | 401,156 | 392,471 | 368,415 | 348,698 | 390,610 | 400,525 | 428,903 |
| Morocco gas sales volumes (boe) | 92,511 | 79,788 | 87,701 | 92,034 | 95,508 | 72,877 | 50,116 | 78,525 |
| Other products sales volumes (boe) | 20,151 | 20,525 | 21,341 | 18,164 | 22,308 | 29,722 | 28,934 | 25,659 |
| Total sales and service fee volumes (boe) ⁽²⁾ | 537,679 | 537,114 | 546,063 | 527,527 | 520,673 | 550,518 | 536,741 | 733,677 |

(1) Until 31 December 2019, NW Gemsa sales of gas, condensate and NGLs were reported in other product sales. Sales of these products made in Q1 2020 were reported with NW Gemsa sales.

(2) NW Gemsa and South Ramadan sales volumes are included to show the Group's entitlement interest production.

Selected annual information

| US\$'000s | Year ended 31 December | | |
|--|------------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Total net revenue | 53,860 | 46,068 | 34,822 |
| Loss and total comprehensive loss for the year ended | (23,955) | (2,058) | (18,186) |
| Net loss per share | | | |
| Basic | \$(0.117) | \$(0.010) | \$(0.089) |
| Diluted | \$(0.117) | \$(0.010) | \$(0.089) |
| Total assets | 98,415 | 124,603 | 133,018 |
| Total non-current liabilities | 6,993 | 7,112 | 6,698 |

Nicholas Box

Chief Financial Officer and Director
18 March 2022

Principal Risks & Uncertainties

SDX continuously monitors and assesses its risks across the organisation. Risk registers are maintained at the Group, country, and project level. At the Group level, each risk is managed by a member of the Executive Committee, and owned by either an executive director, or the board, as appropriate.

The current principal risks and their mitigations are set out below:

| Risk | Mitigation |
|---|--|
| Investment returns | |
| Insufficient liquidity to ensure that the business remains a going concern/is funded for planned activity | <ul style="list-style-type: none"> An effective cash forecasting process is established and maintained. Management undertakes severe but plausible downside analysis. Receivables are collected on a timely basis. Relationships with lenders are maintained and/or new relationships are formed, if necessary. There is effective working capital management. Effective contracting processes are established and maintained. |
| Material reduction in oil prices | <ul style="list-style-type: none"> SDX currently has a low portfolio exposure to the oil price as approximately 90% of production is natural gas, which is sold on long-term, fixed-price contracts in both South Disouq and Morocco. |
| Loss of support of major shareholder(s) | <ul style="list-style-type: none"> Management and the board maintain an agreed dialogue with key shareholders, the largest of which continues to have the right to appoint a non-executive director to the Company's board, following the resignation of the previous representative, Amr Al Menhali, in June 2021. The Company aims to deliver on its strategy. Management seeks to ensure that shareholders' investments generate adequate returns. |
| Operations and HSE | |
| Major operational incident | <ul style="list-style-type: none"> The SDX safety management system is implemented. Key process safety metrics are measured. Regular inspections of non-operated assets are carried out. Insurance is procured to address insurable risks. |
| Failure of exploration and development strategy | <ul style="list-style-type: none"> Robust G&G resources and a process for evaluating exploration and development opportunities are put in place. The Company only works with reputable outsourced drilling contractors/service providers. Strategy does not require SDX to be a world-class explorer. |
| Unable to achieve production targets/recover reserves | <ul style="list-style-type: none"> A field development planning process is established. Production reports are produced on a timely basis. A maintenance and operability process is established. A reservoir management process is established. Adequate human/technical resources are in place within the organisation. |
| Terrorism & sabotage | <ul style="list-style-type: none"> Develop and implement the SDX security system (in conjunction with an expert third party). Specialist terrorism and sabotage insurance cover is maintained. |
| Political and commercial environment | |
| Political stability in asset geographies leads to loss of ability to operate effectively | <ul style="list-style-type: none"> Capital allocation is carried out in relation to the perceived country risk. Management teams across the business carry out passive monitoring. The company develops and maintains strong in-country relationships with the authorities. |
| Non-compliance with laws and regulations | <ul style="list-style-type: none"> A fully communicated and embedded ABC policy and code of conduct are established and maintained. Annual ABC training, with written confirmations from recipients, takes place. Appropriate tone at the top |

SDX Energy Plc Directors' S.172 Statement

SDX Energy maintains high operating standards, with a clear focus on health, safety, and the environment to ensure the safety of its employees, local communities, and the environment in which the Company operates.

The board of directors of SDX Energy recognises the importance of building and sustaining relationships with stakeholders, considering the long-term consequences of our decisions, and the need to foster a sound business reputation. The Board of Directors believes that all stakeholders must be treated with fairness and respect, and has identified the following groups as being important to our success:

- Employees
- Shareholders
- Communities local to where we work
- National and local governments and regulatory agencies
- Asset partners
- Suppliers
- Financial institutions

The following chart sets out the responsibilities of each of the above stakeholder groups and the methods by which we engage with them, as overseen by the board as a whole:

| Stakeholder | Internal responsibility | Communication channels | Issues typically considered |
|---|--|--|---|
| Employees | Chief Executive Officer | Email Telephone and videoconferences Face-to-face meetings Town hall meetings | Training and development HR policies and procedures Health and safety Anti-bribery and corruption Corporate initiatives |
| Shareholders | Chairman of the Board and Chief Executive Officer | E-mail Telephone and videoconferences Face-to-face meetings RNS announcements Investor conferences Website Annual and interim reporting Via third party advisors including brokers | Investment returns Operational and financial performance Strategy Funding Risk management |
| Communities local to where we work | (Deputy) Country managers | Face-to-face meetings Public meetings Email Telephone | Environmental management Social development initiatives Community health |
| National and local governments and regulatory agencies | (Deputy) Country managers | Face-to-face meetings Email Telephone Written communications | Asset management Environmental compliance Social investment Cash collections |
| Asset partners | Chief Executive Officer and (Deputy) Country Managers | Face to face meetings Email Telephone Written communications | Operational planning and performance Billing and cash calling Asset development planning |
| Suppliers | Chief Executive Officer and (Deputy) Country Managers | Telephone Email Face-to-face meetings | Operations Funding |
| Financial institutions | Chief Financial Officer | Telephone Email Face-to-face meetings | Funding |

SDX Energy Plc Directors' S.172 Statement / continued

Shareholders:

The board places equal importance on all shareholders and recognises the significance of transparent and effective communications with shareholders.

The primary communication tool with our shareholders is through the Regulatory News Service, ("RNS") on regulatory matters and matters of material substance. The Company's website provides details of the Company, its operations, corporate presentations, AIM rule 26 information, and QCA code disclosures.

The Company's annual report and Notice of Annual General Meetings ("AGM") are available to all shareholders. Unfortunately, due to UK government guidelines during 2021, our shareholders were asked not to attend our most recent AGM. We hope to welcome participants at our 2022 AGM, subject to prevailing government guidance.

During 2021, investor events were held to enable a dialogue with the executive directors and other members of management. We held a conference call specifically for retail investors, in addition to the quarterly operating and financial results forums.

By providing a variety of ways to communicate with investors, the Company feels that it reaches out to engage with a wide range of its stakeholders.

Employees

The board regularly engages with its employees. Management holds frequent "town hall" meetings with staff in the UK, Egypt, and Morocco. It seeks to hold at least one scheduled board meeting annually in Cairo or Rabat, in addition to meetings in London. During these board visits, time is set aside to meet with local employees to communicate key messages and receive feedback. Due to COVID-19 restrictions, all board meetings were held virtually in 2021.

Communities local to where we work

The board has overseen the Company's environmental, social, and governance initiatives during the year, which are discussed in more detail in the 2021 ESG report on pages 33 and 34 of the annual report.

Financial institutions (lenders)

The board has renewed its relationship with EBRD through the agreement of a new, five-year reserves-based lending facility. Conditions precedent were met in 2021 and the facility currently has US\$4.8 million of availability.

The board seeks to ensure at all times that the Company is fully funded for all planned activities and regards EBRD as a highly valued partner for SDX Energy.

Suppliers

The board fully supports collaboration with suppliers as it reduces risk in our supply chain and ensures that we maintain high standards of business conduct, which benefit our communities. We interact with suppliers during day-to-day field operations, major and smaller scale projects, tendering exercises, and in planning future activity. In 2021, our suppliers successfully helped us to deliver our South Disouq and Morocco drilling and workover campaigns, all while dealing with the challenges that COVID-19 has posed.

The board also aims to foster productive relationships with our asset partners. Throughout 2021 the board has worked to achieve the goals established within each partnership, primarily set in Operating and Technical Committee meetings and updated as necessary through frequent communications.

National and local governments and regulatory agencies

The board understands the importance of strong relationships with our host national and local governments. Respecting our agreements with the Egyptian and Moroccan states is at the heart of our licence to operate, and we engage in regular discussions with government representatives to ensure that expectations are understood and assets are managed effectively. We acknowledge that our responsibility includes adhering to local environmental and social regulations, which in 2021 included conducting environmental impact assessments ahead of drilling in Morocco and Egypt, produced water management in Morocco and at South Disouq, and land use rental and farmers' compensation at the South Disouq asset.

ESG Report

SDX's purpose is to supply energy in an environmentally conscious manner to the benefit of all its stakeholders. As an oil and gas exploration and production company, we recognise our responsibilities to our investors, the environment, particularly in the countries in which we operate, local communities affected by our business, our employees, host governments, and all our other business partners.

SDX is committed to measuring and reporting key ESG metrics so that we can provide stakeholders with information about our ESG performance on an annual basis. During 2020, the Company considered several reporting frameworks before adopting elements of the Sustainability Accounting Standard Board ("SASB") framework. In this 2021 report, metrics reported are calculated in accordance with the methodologies set out in the SASB standards.

Materiality assessment

SDX has undertaken a materiality assessment and mapping exercise to rank ESG topics according to their significance to our business and stakeholders. Material topics were those considered to be financially material or that may reasonably be considered important for reflecting the organisation's economic, environmental, and social impacts, or that could influence the decisions of stakeholders.

The following ESG topics were identified as material to SDX:

- Greenhouse gas emissions
- Water and wastewater management
- Ecological impacts of our operations
- Health and safety
- Business ethics
- Critical incident risk management and systemic risk management
- Employee engagement, diversity, and inclusion
- Human rights, labour practices, and community relations

Reporting boundaries

The ESG reporting boundary for this report is SDX's operated assets and office locations. Non-operated assets are currently outside the reporting boundary for the following reasons:

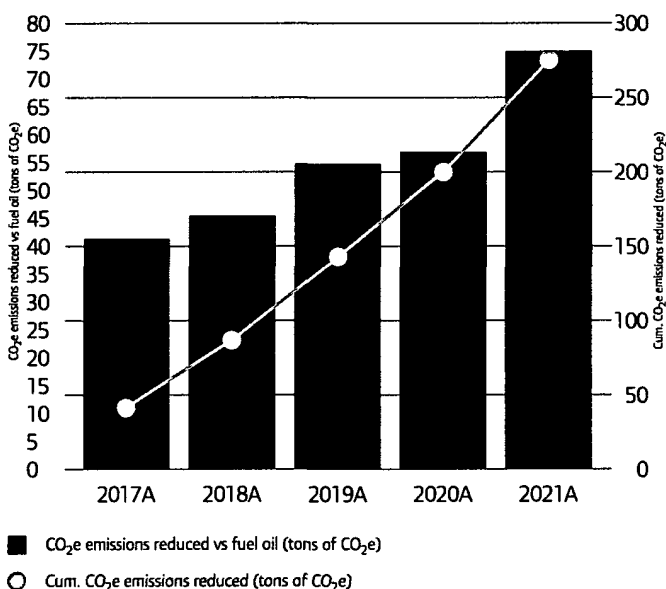
- It is not yet possible to gain sufficient assurance over the accuracy and completeness of data from non-operated assets across all ESG topics; and
- Non-operated assets are less material. As at 31 December 2021, non-operated assets (West Charib) accounted for 8% of Group working interest production, 14% of Group netback, and 9% of Group assets.

Greenhouse gas emissions

FY2021 scope 1 greenhouse gas emissions in Morocco comprised 1,600 tons (2020: 869 tons) of CO₂e, and at South Disouq, 8,300 tons (2020: 5,830 tons) of CO₂e. The carbon intensity of the operations was 3.3kgCO₂e/boe (2020: 2.2kgCO₂e/boe) and 3.0kgCO₂e/boe (2020: 1.8kgCO₂e/boe), respectively. Both operations compare favourably to peers and the wider industry. The Morocco operation is characterised by a simple process whereby the only treatment of the natural gas is separation of produced water before it is flowed into our pipeline and distribution network. At South Disouq, produced natural gas is used as the primary fuel for the CPF, which was constructed and assembled in 2019 and incorporates energy-efficient technologies.

In Morocco, scope 3 emissions at our eight industrial customers consisted of 147,900 tons (2020: 113,000 tons) of CO₂e in 2021. Given that these factories would otherwise consume more polluting fuels, however, the company's supply of natural gas reduced our customers' CO₂ emissions by 75,000 tons (2020: 57,000 tons) of CO₂e during the year versus heavy fuel oil.

SDX Morocco: Tonnes of carbon saved by end user vs heavy fuel oil



Note-emission reductions assume alternative fuel is heavy fuel oil

Water and wastewater management

Produced water is a natural by-product of oil and gas production. Untreated, produced water can be harmful to the environment. SDX operates assets in agricultural areas and ensures that no produced water is discharged into the environment.

In Morocco, all produced water is transferred to lined pits and naturally evaporates. At South Disouq, produced water is first stored in lined pits at the well site or bunded tanks at the CPF and is then trucked offsite for treatment and recycling. No water is injected or discharged at either operation.

Ecological impacts

The Company takes all appropriate steps to mitigate the risk of hydrocarbon spills. Morocco does not produce liquid hydrocarbons, and at South Disouq the condensate tanks are recently commissioned with strict protocols in place to prevent spills, such as when loading road tankers. These operations take place in bunded areas to reduce environmental contamination risk.

There were no hydrocarbon spills at either operation during 2021 (2020: nil).

ESG Report / continued

Health and safety

SDX is committed to protecting the safety of its employees, contractors, and the communities in which it operates.

Regrettably, there was one Lost Time Injury (“LTI”) at Morocco during 2021 in which a contractor sustained a minor injury in a road traffic accident, but after a short period of observation was able to return to work.

There were no recordable injuries in South Disouq.

Business ethics

Peace, stability, human rights, and effective governance based on the rule of law are important conduits of sustainable development. SDX conducts its business in a fair and transparent manner, empowering our employees to adhere to the required standards of practice, wherever our business takes us.

SDX has in place the following codes, policies, and procedures that seek to address ethical matters:

- Code of business conduct
- Anti-bribery and corruption policy
- Whistleblowing procedures
- Privacy notices and personal data protection (GDPR Compliance)

These policies are distributed to all employees.

None of SDX’s oil and gas reserves are in countries named in the 20 lowest rankings on the Transparency International’s Corruption Perception Index (CPI).

Critical incident risk management and systemic risk management

Risk management and mitigation is a cornerstone of SDX’s operating philosophy. We have embedded a risk process that runs from the operations teams in the field through to senior management and board levels. The foundation of this process is risk identification and assessment through tools such as safety analysis, project risk assessment, and business risk planning. A regular review process ensures that these risks are mitigated and remain evergreen. Risks that are material to the Company overall are reviewed at the executive committee level and receive approval from the CEO and the remainder of the board.

Employee engagement, diversity, and inclusion

SDX is committed to providing equal opportunities to all employees. Employees receive equal treatment regardless of:

- Age
- Disability
- Gender reassignment
- Marital or civil partner status
- Pregnancy, maternity or paternity
- Race
- Colour
- Nationality, ethnic, or national origin
- Sex or sexual orientation

We also believe in the importance of promoting diversity and equality, which is essential to create a rich mix of skills and abilities across the business. We are proud of the composition of our team and were pleased to welcome Catherine Stalker to the board as a non-executive director in the prior year. Across the business, 14% of our employees are female, including the senior reservoir engineer, senior geologist, and HR manager in London, the head of exploration and business development in Cairo, and the head of procurement and HR manager in Rabat.

Human rights, labour practices, and community relations

SDX respects the human rights of all our employees, contractors, and those within our supply chain. We have a zero-tolerance approach to human rights abuse and modern slavery and seek to operate in accordance with all applicable UK, Egyptian, and Moroccan human rights rules and labour laws. SDX works exclusively with reputable local and international contractors and conducts industry-standard tender exercises for all significant projects.

SDX contributes to the economic and social development in the countries in which we operate. We create meaningful partnerships to ensure that our operations are in line with local priorities and business cultures. Wherever possible, we employ and nurture local talent. Of our 51 permanent salaried roles in Egypt and Morocco, we are proud that 50 (98%) are filled by national citizens. We also use domestic suppliers and contractors at our operating sites whenever possible.

SDX proactively engages with the local communities that are affected by our operations and strive to be of benefit to them. During 2021, SDX was delighted to support two hospitals close to the South Disouq operation by donating 13 monitors and BPAP ventilators to help to alleviate the current COVID-19 crisis and equip the teams there for the longer-term health of our local communities. In Morocco, SDX made the decision to support the Dar Lekbira organisation, based in Kenitra. Dar Lekbira is an NGO with no political or religious affiliation. It aims to help children in distress in Kenitra and the surrounding area, which overlaps with SDX’s operating footprint. SDX is providing Dar Lekbira with winter clothing, school supplies and non-perishable food items.

In 2022, our teams will continue to seek out more community support opportunities, with a focus on health care and education.

Payments to Governments

Introduction and basis for preparation

This report sets out details of the payments SDX Energy Plc has made to governments and its subsidiary undertakings ("SDX Energy") for the year ended 31 December 2021. This information is required under the Disclosure and Transparency Rules of the UK Financial Conduct Authority and is provided in accordance with our interpretation of the industry guidance issued for the UK's Report on Payments to Governments Regulations 2014, as amended in December 2015.

Payments to governments are required to be reported in the following categories:

- production entitlements;
- taxes levied on the income, production or profits of companies, excluding taxes levied on consumption, such as value added taxes, personal income taxes, or sales taxes;
- royalties;
- dividends, other than dividends paid to a government as an ordinary shareholder unless they are paid in lieu of a production entitlement or royalty;
- signature, discovery, and production bonuses;
- licence fees, rental fees, entry fees and other considerations for licences and/or concessions; and
- payments for infrastructure improvements.

A breakdown of the basis of preparation for the categories relevant to SDX Energy is set out below.

Payments included in the report are amounts paid, whether in money or in kind, for relevant activities. However, as permitted under the regulations, where a payment or series of related payments do not exceed £86,000, they do not need to be disclosed. When preparing this report, a threshold of £86,000 (approximately US\$118,000) was applied.

Payments made in currencies other than US dollars are translated for this report, based on the foreign exchange rate at the transaction date.

Summary table showing payments to governments and payees for the year ended 31 December 2021 (in US\$)

| Country | Payee | Production entitlements | Taxes ¹ | Bonuses ² | Fees ³ | Total ⁴ |
|--------------|--|-------------------------|--------------------|----------------------|-------------------|--------------------|
| Egypt | General Petroleum Company | | | 420,000 | | 420,000 |
| Egypt | Egyptian Natural Gas Holding Company | 10,575,447 | | 662,750 | | 11,238,197 |
| Morocco | Tax authority | | 323,927 | | | 323,927 |
| Morocco | Office National des Hydrocarbures et des Mines ("ONHYM") | | | | 605,592 | 605,592 |
| Total | | 10,575,447 | 323,927 | 1,082,750 | 605,592 | 12,587,716 |

(1) US\$0.3 million of taxes paid relating to the social solidarity contribution to the Moroccan tax authorities.

(2) US\$1.1 million of bonuses relating to: a US\$0.4 million signature bonus for the renewal of the West Gharib concession, a US\$0.6m signature bonus for the extension of the South Disouq exploration concession and US\$0.1 million training fees.

(3) US\$0.6 million was paid to ONHYM during the year ended 31 December 2021, predominantly for fees associated with historic operational expenditure, right-of-passage and training.

(4) For the year ended 31 December 2021, SDX Energy did not make any reportable dividend, royalties or infrastructure improvement payments to any government.

Summary table showing government payments split by project for the year ended 31 December 2021 (in US\$)

| Project | Project | Production entitlements | Taxes | Bonuses | Fees | Total |
|--------------|-------------------|-------------------------|----------------|------------------|----------------|-------------------|
| Egypt | South Disouq | 10,575,447 | | 662,750 | | 11,238,197 |
| Egypt | West Gharib | | | 420,000 | | 420,000 |
| Morocco | Gharb concessions | | 323,927 | | 605,592 | 929,519 |
| Total | | 10,575,447 | 323,927 | 1,082,750 | 605,592 | 12,587,716 |

Our Focus / Middle East & North Africa



Corporate Governance

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Board of Directors

Executive Directors



Mark Reid
Chief Executive Officer and Director

Mark Reid has over 25 years' experience in numerous sectors, including financial services, investment banking, and oil and gas. He has had significant exposure to M&A transactions and the equity and debt capital markets. Between 2009 and 2015 he was finance director at the 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 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. He 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.

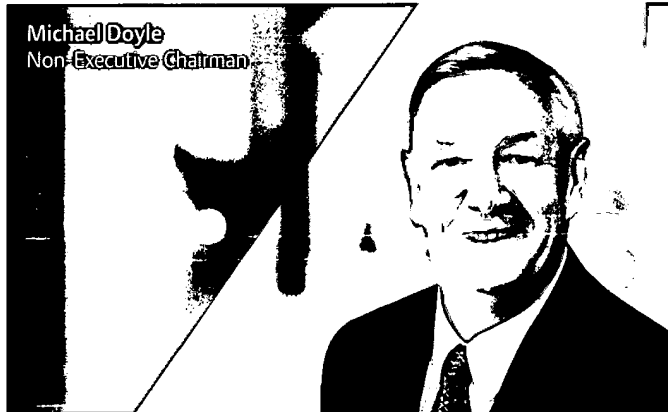


Nicholas Box
Chief Financial Officer and Director

Nick Box was appointed chief financial officer and director of SDX Energy Plc in November 2019. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Prior to joining SDX Energy Plc as group financial controller in 2016, Mr. Box worked for PwC in the UK, Australia, and Mongolia, primarily in the natural resources sector. He has over 15 years of professional experience in accounting, capital markets transactions, post-merger integrations, and internal controls.

Board of Directors / continued

Non-Executive Directors



Michael Doyle is a professional geophysicist and certified corporate director (ICD.D) with over 40 years of wide-ranging experience in the finance and development of international energy and resource projects. His previous experience includes acting chairman of NYSE-listed Equal Energy, and as principal and chief executive of Petrel Robertson Ltd, where he was responsible for providing advice and project management to clients in Canada and other countries.

Mr. Doyle is a past chair of the Museum of Contemporary Art in Calgary and has extensive experience in a variety of advisory roles at the university level, including cooperative education and the international energy business. He is past chairman of the Latin American Research Centre (LARC) advisory board at the University of Calgary, where he also served as a member of the Regional Advisory Council for Mexico. Mr. Doyle holds a BSc (math and physics) from the University of Victoria.



David Mitchell is an international oil and gas executive with more than 40 years of experience, including with BP and Nexen. He was appointed CEO of Madison PetroGas on joining in 2008, building the company prior to the merger with Sea Dragon Energy.

Mr. Mitchell built projects with teams in the Middle East, West Africa, Latin America, and the North Sea. He has lived and worked in several countries, including a year in Egypt with BP. Mr. Mitchell received his BSc Honours degree in geology from the University of London and his MPhil in mining engineering from the University of Nottingham, UK.



Timothy Linacre is a fellow of the Institute of Chartered Accountants in England and Wales and an experienced City practitioner. After qualifying with Deloitte Haskins and Sells, he spent five years with Hoare Govett before moving to Panmure Gordon in 1992, where he worked for 20 years, including eight years as CEO. Mr. Linacre is currently executive deputy chairman at Instinctif Partners, a leading business communications firm, and is non-executive chairman of Frenkel Topping plc, a specialist professional and financial services firm focused on asset protection for clients whose shares are listed on the London Stock Exchange.

During his four decades in the City, Mr. Linacre advised a range of businesses in a variety of sectors, including oil and gas, from FTSE 100 companies to fast-growing listed and private companies.



Catherine Stalker is an experienced non-executive director and consultant to the boards of FTSE companies, public sector bodies, regulators, pension funds, and not-for-profits. She has worked at the Bank of England, and at PwC in Moscow and Berlin, where she headed the HR consulting practice. She is currently a partner at Independent Audit Limited, a leading board evaluation firm with offices in London, Brussels, and Dublin. Ms. Stalker sits on the board of a subsidiary of DTEK, a Dutch energy company with vertically integrated assets in Ukraine. She is also a non-executive director on the board of the Ukrainian retail bank, PUMB.

Ms. Stalker holds an MSc from the London School of Economics in International Political Economy and a BA (Honours) from Heriot Watt University in Russian and French.

Chairman's Introduction to Corporate Governance



The board seeks to embed good corporate governance throughout the business, from the executive level to in-country operations.



As chairman of SDX Energy Plc, I am committed to ensuring that an effective and focused board of directors leads the business and maintains its track record of delivery. Strong corporate governance helps to underpin the foundations of a solid and successful business.

The board seeks to embed good corporate governance throughout the business, from the executive level to in-country operations. We adopt the Quoted Companies Alliance Corporate Governance Code 2018 (the "Code") as my fellow directors and I continue to believe that the Code is the most appropriate recognised framework for the Company, and this is discussed in more detail in our annual Code disclosures on pages 44 to 49.

As we reflect on the successes and challenges of 2021, I look forward to continuing to build upon the existing values we have in place and to ensuring that sound corporate governance supports our growth for the benefit of all stakeholders.

Michael Doyle
Non-Executive Chairman
18 March 2022

Statement of Corporate Governance

Board composition

As at 31 December 2021, the board of the Company consisted of the non-executive chairman, the chief executive officer, the chief financial officer, and three non-executive directors.

Amr Al Menhali, following his departure from Waha Capital, did not put himself forward for re-election as a non-executive director of the Company and retired from his position at the 2021 AGM. The board thanked Amr for his significant contribution to the Company and wished him every success in his future endeavours.

The board considers Tim Linacre and Catherine Stalker to be independent directors. Michael Doyle and David Mitchell both hold shares and options in the Company of more than 1% of the Company's issued share capital. As set out in the UK Corporate Governance Code, these directors would not be considered independent, however the board believes that all the non-executive directors are independent in character and judgement and have the range of experience and expertise to bring independent judgement on issues of strategy, performance, resources, and standards of conduct, which is vital to the success of the Group.

The board believes there is an adequate balance between the non-executive and executive directors, both in number and in experience and expertise, to ensure that the board operates independently of executive management. A board performance evaluation was finalised in 2021 year as discussed below. The next board performance evaluation will be undertaken at an appropriate time, expected to be within the next 12 to 24 months.

Corporate governance framework

The board of directors recognises that good corporate governance is fundamentally important to the success of the Company and believes that the QCA Code provides the Company with the right framework to sustain a strong level of governance. The annual QCA Code disclosures are contained on pages 44 to 49 of the annual report.

The board holds scheduled meetings each year. Additional meetings are held when necessary to consider matters of importance that cannot be held over until the next scheduled meeting. At these meetings, financial, operational, and other reports are considered and, where appropriate, voted on. The board is responsible for the Group's strategy, performance, key financial and compliance issues, approval of all annual budgets, and the framework of internal controls. The matters reserved for the board include, among others, approval of the Group's strategy and annual objectives, monitoring compliance with significant policies and procedures, including health and safety, oversight of communications and public disclosure, approval of the Group's annual report and accounts, succession planning, and the maintenance of sound systems of internal control.

The board delegates certain of its responsibilities to its committees, which have clearly defined terms of reference.

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to the executive management. The board is responsible for monitoring the activities of the executive management. The chairman is responsible for ensuring that the board discharges its responsibilities. In the event of a tied vote at a meeting of the board, the chairman has a second or casting vote.

The Company is committed to a corporate culture that is based on sound ethical values and behaviours and it seeks to instil these values across the organisation. The Company promotes its commitment through its public statements on its website, in its report and accounts, and internally through its communications to employees and other stakeholders.

The Company has a zero-tolerance approach to bribery and corruption and has adopted an anti-bribery policy to protect the Group, its employees, and those third parties with which the Company engages. Annual training sessions are held with all employees to ensure compliance with the anti-bribery policy.

The Company has adopted a whistleblowing policy which enables employees to raise any concerns they may have in confidence with the chairman, chief executive officer or the chair of the Audit Committee.

Board committees and structure

The board has established an Audit Committee, a Reserves Committee, a Nominations Committee, and a Remuneration Committee. Health, safety, and environmental matters are within the remit of the full board. All committees report back to the board following a committee meeting.

Audit Committee

The Audit Committee meets regularly and consists of two members, both of whom are non-executive directors. Its purpose is to help the board oversee the integrity of the financial statements and other financial reporting, the application of significant accounting policies, the effectiveness of financial and internal controls, and the independence and performance of the auditors, including the provision of non-audit services. The Audit Committee may hold private sessions with management and with the external auditor without management present.

The Audit Committee met four times in 2021 and proposes to meet at least four times during the next financial year. It is chaired by Tim Linacre and the other member is Michael Doyle.

Reserves Committee

The Reserves Committee meets at least annually and consists of two members, both of whom are non-executive directors. Its purpose is to review the reports of the independent reserves auditors pursuant to Canadian regulations, which require that the board discusses the reserves reports with the independent reserves auditors or delegate authority to a reserves committee comprising at least two non-executive directors. David Mitchell chairs the Reserves Committee and the other member is Michael Doyle. The committee met once in 2021 and typically meets once a year prior to publication of the annual results.

Statement of Corporate Governance / continued

Board committees and structure / continued**Remuneration Committee**

The Remuneration Committee meets regularly to consider all material elements of remuneration policy, share schemes, and the remuneration and incentivisation of executive directors and senior management. Its role is to monitor and review remuneration policies to ensure that SDX attracts, retains, and motivates the most qualified talent who will contribute to the long-term success of the Company. The committee met twice in 2021 and proposes to meet at least twice during the next financial year.

The committee is composed of two non-executive directors, both of whom are independent. The committee is chaired by Catherine Stalker and the other member is Tim Linacre.

Nominations Committee

The Nominations Committee, created as a standing committee of the board, is comprised of two independent non-executive directors and two non-independent non-executive directors. It oversees succession planning, the structure, effectiveness, and performance of all members of the board and all board committees, and the recruitment and induction of directors.

The committee currently comprises Catherine Stalker (chair), Michael Doyle, Tim Linacre, and David Mitchell. The committee met once in 2021 and proposes to meet at least twice during the next financial year.

Directors' attendance at meetings

The board generally has one scheduled meeting every quarter over the course of the financial year, with informal discussions scheduled as required. Additional meetings are held from time to time to deal with issues that arise. The non-executive directors hold informal meetings during the year at which members of management are not in attendance. The directors' attendance at scheduled board meetings and committees during 2021 is shown in the table below:

| Director ⁽¹⁾ | Board | Audit | Nominations | Remuneration | Reserves |
|-------------------------------|----------|----------|-------------|--------------|----------|
| Michael Doyle | 4* | 4 | 1 | 2+ | 1 |
| Mark Reid | 4 | 4+ | 1+ | 2+ | 1+ |
| Nick Box | 4 | 4+ | 1+ | 2+ | - |
| Tim Linacre | 4 | 4* | 1 | 2 | - |
| David Mitchell | 4 | 4+ | 1 | 2+ | 1* |
| Amr Al Menhali ⁽²⁾ | - | - | - | - | - |
| Catherine Stalker | 4 | 4+ | 1* | 2* | - |
| Total meetings | 4 | 4 | 1 | 2 | 1 |

* Chairman

+ Invitee

1) The non-executive chairman, CEO, CFO, and non-executive directors attended a number of meetings of committees of which they were not members during the course of the year at the invitation of the committee chairman.

2) Mr. Al Menhali did not offer himself for re-election at the 2021 AGM and accordingly stood down as a director on 25 June 2021.

Board evaluation

The board believes that its effectiveness and the individual performance of its directors are vital to the success of the Company.

A board performance evaluation commenced in 2020 and finalised in 2021, led by the Nominations Committee. The process and results are discussed in the Nominations Committee section on page 54.

The directors have a wide knowledge of the Company's business and understand their duties as directors of a company quoted on AIM. They have access to the Company's nominated adviser, auditors, and legal counsel as and when required. These advisers are available to provide formal support and advice to the board from time to time and do so in accordance with good practice. The directors are also able, at the Company's expense, to obtain advice from external advisers, if required.

The board is mindful of the need for succession planning and, supported by the Nominations Committee, will continue to meet and monitor the requirements for this and board appointments to ensure that the board is fit for purpose. If external training or assistance with recruitment is required by the board, this will be made available.

Mark Reid

Chief Executive Officer and Director
18 March 2022

Directors' Report

The directors of the Company present their report and the Consolidated Financial Statements of SDX Energy plc ("SDX" or the "Company") for the year ended 31 December 2021.

Principal activities

The principal activity of the Company and its subsidiary undertakings (the "Group") is the exploration for and production of oil and gas. Its current activities are located in the Arab Republic of Egypt and the Kingdom of Morocco.

Business review and future developments

A review of the business and the future developments of the Group is presented in the Strategic Report (including the Chief Executive Officer's Report, Review of Operations, and Financial Review) and Chairman's Statement (all of which, together with the Corporate Governance Statement, are incorporated by reference into this Directors' Report).

Stakeholder engagement

An overview of the responsibilities of the directors and the methods by which they engaged with suppliers, customers and others in a business relationship with the Company is presented in the Directors' S.172 Statement on pages 31 to 32.

Results and dividends

The loss for the year was US\$23,955k (2020: loss of US\$2,058k). The directors do not recommend the payment of a dividend (2020: US\$nil).

Financial instruments

The Group's financial risk management objectives and policies are discussed in note 6 to the Consolidated Financial Statements.

Events since the balance sheet date

Events since the balance sheet date are disclosed in note 25 to the Consolidated Financial Statements.

Directors and their interests

The Company was incorporated on 20 March 2019. As described in note 1 to the Consolidated Financial Statements, on 28 May 2019 the Company obtained control of the entire issued share capital of SDX Energy Inc. via a share-for-share exchange.

The following director did not offer himself for re-election during the 2021 AGM:

| | |
|----------------|---------------------------|
| Amr Al Menhali | (terminated 25 June 2021) |
|----------------|---------------------------|

The following directors have held office in the Company during the year and to the date of this report:

| | |
|-------------------|------------------------------|
| Mark Reid | (appointed 20 March 2019) |
| Michael Doyle | (appointed 28 May 2019) |
| Timothy Linacre | (appointed 28 May 2019) |
| David Mitchell | (appointed 28 May 2019) |
| Nicholas Box | (appointed 12 November 2019) |
| Catherine Stalker | (appointed 6 February 2020) |

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of directors' interests:

| Director | Class of share | Interest at end of year | Interest at date of appointment |
|-------------------|----------------|-------------------------|---------------------------------|
| Michael Doyle | Ordinary | 2,169,669 | 2,169,669 |
| Mark Reid | Ordinary | 692,897 | 366,970 |
| Nick Box | Ordinary | 97,261 | 20,030 |
| Tim Linacre | Ordinary | 160,000 | 50,000 |
| David Mitchell | Ordinary | 1,809,450 | 1,671,950 |
| Catherine Stalker | Ordinary | 111,359 | - |

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of other Group companies.

No rights to subscribe for shares in, or debentures of, Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year. Rights to subscribe for shares held by directors, granted in prior years, are disclosed in note 15 to the Consolidated Financial Statements and in the 2021 Remuneration Report on pages 50 to 53 of the Annual Report.

Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP as independent auditors will be put to the members at the annual general meeting.

Disclosure of information to auditors

The directors who were members of the board at the time of approving the Directors' Report are listed above. So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group's auditors, each director has taken all the steps that he or she is obliged to take as a director to make him or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

On behalf of the board

Mark Reid
Director
18 March 2022

QCA Code Compliance Disclosures

Principle 1: Establish a strategy and business model which promotes long-term value for shareholders

Application: The board must be able to express a shared view of the Company's purpose, business model and strategy.

Explain the Company's business model and strategy, including key challenges in their execution (and how those will be addressed)

The Company's strategy is to develop and maintain a portfolio of onshore/near-shore oil and gas exploration and production assets in the MENA region that deliver high-margin production, such that SDX would generate, on average, US\$15/boe in operating profit in any price environment. As the Company operates in the upstream oil and gas sector, it is exposed to political, operational, commercial, product pricing, and hazard risk.

Further discussion of the Company's business model, strategy, and key challenges (and how these are addressed) is contained in the Strategic Report on pages 4 to 35.

Principle 2: Seek to understand and meet shareholder needs and expectations

Application: Directors must develop a good understanding of the needs and expectations of all elements of the Company's shareholder base. The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.

Explain the ways in which the Company seeks to engage with shareholders. This should include information on those responsible for shareholder liaison or specification of the points of contact for such matters

The Company engages with its shareholders through regulatory news flow, providing statutory financial results, operational and financial updates to maintain information on overall performance, releases relating to matters of material importance to the Company's business, releases of a regulatory nature, and scheduled events, such as capital markets days. The Company maintains an informative and regularly updated website at www.sdxenergygroup.com through which shareholders can obtain copies of the Company's annual reports, interim reports, and other regulatory documents and regulatory news service releases. The website includes copies of all presentations made from time to time to analysts, shareholders, and the general market. It also includes a facility under which shareholders may submit questions or make comments relating to the Company's business. Contact details for all regulatory announcements can be found on the website. Whenever possible, the Company endeavours to respond to enquiries.

Under normal circumstances, the Company's Annual General Meeting ("AGM") is a regular opportunity for shareholders to meet with the Company and receive a corporate presentation. There is also an opportunity for shareholders to ask questions after the presentation, during the formal business of the meeting, and informally following the meeting. In 2021, and in accordance with the then-prevailing UK Government requirements, shareholders were asked not to attend the AGM. The Company will continue to observe applicable guidelines for the 2022 and future AGMs.

The chairman and the chief executive officer are together responsible for shareholder liaison and act as a listening board for shareholders. In all communications with shareholders and the general market, the Company maintains strict compliance with the requirements of the AIM Rules and Market Abuse Regulations.

The Company also retains advisors, including public/investor relations and brokers, who maintain a regular dialogue with current and prospective shareholders and inform management of relevant feedback and market perceptions of the Company.

QCA Code Compliance Disclosures / continued

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

Application: The board needs to identify the Company's stakeholders and understand their needs, interests and expectations.

Explain how the business model identifies the key resources and relationships on which the business relies

The Company's business model and strategy are described in Principle 1.

The Company is aware of its stakeholder and social responsibilities and the need to maintain effective working relationships across a range of stakeholder groups. These include the Company's host governments, employees, joint venture and industry partners, suppliers, customers, and regulatory authorities across the Company's activities. These activities have the potential to affect local communities where our assets are located and the environment more generally. Accordingly, the Company has in place positive strategies to engage with each stakeholder group, whether individually or collectively, as part of its ongoing operations, including a comprehensive Environmental, Social and Governance ("ESG") strategy, which is outlined on pages 33 to 34.

The Company's operations and working methodologies take account of the need to balance the needs of all stakeholder groups while maintaining a primary focus on the promotion of the success of the Company for the benefit of all shareholders. A broad range of stakeholders, including our supply chain partners, employees, and taxing authorities benefit when the Group is successful.

Explain how the Company obtains feedback from stakeholders and the actions that have been generated as a result of this feedback (e.g. changes to inputs or improvements in products)

The Company values the feedback received from its stakeholders and takes every opportunity to ensure that, where possible, the wishes of stakeholders are considered. The operations of the Company need to be carefully managed and conducted in order to reduce environmental impact, enhance (rather than impair) communities, and protect Company employees and others who operate at the Company's assets.

As outlined in Principle 2, the Company maintains a regular dialogue with its shareholders through several channels.

The Company meets with its asset partners frequently, including at scheduled Technical and Operating Committee meetings. In-country personnel lead the day-to-day management of the relationships with host governments, represented by ONHYM in Morocco and EGAS and GPC in Egypt. Plans and budgets presented to partners and host governments are updated in line with feedback received and, for example, may have an impact on field development plans, production optimisation, and JV organisation charts, etc.

The Company conducts regular employee engagement sessions, run by the executive team, at which employees are able to voice their opinions and make suggestions.

QCA Code Compliance Disclosures / continued

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

Application: The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver its strategy.

Describe how the board has embedded effective risk management in order to execute and deliver strategy. This should include a description of what the board does to identify, assess, and manage risk and how it gets assurance that the risk management and related control systems in place are effective

A culture of risk awareness and management is encouraged at all levels throughout the Company. The board regularly reviews strategic risks. At the Executive Committee level, each member of the team is responsible for continuously monitoring and managing risk within the relevant business areas, including the company's supply chain, from suppliers to customers. Corporate, country, and project risk registers are maintained and monitored at the appropriate levels within the organisation. The Company employs outside advisors to assess and advise on risk when it is felt that additional third-party expertise is required. By receiving frequent updates on developments pertaining to the business and operations, the board maintains a full and active awareness of operational and financial risks and the assurances that effective control systems are in place.

The Company maintains appropriate insurance cover in respect of its activities. The insured values and type of cover are comprehensively reviewed on a periodic basis.

The Company's approach to the management and identification of risk is set out in the Business Risks and Uncertainties section of the Financial Review on page 30.

Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

Application: The board members have a collective responsibility and legal obligation to promote the interest of the Company, and are collectively responsible for defining corporate governance arrangements.

Identify those directors who are considered to be independent; where there are grounds to question the independence of a director, through length of service or otherwise, this must be explained

The board currently has a non-executive chairman, a chief executive officer, a chief financial officer, and three non-executive directors. The biography of each director is set out on pages 38 to 39.

All non-executive directors have extensive and complementary skills, knowledge, and experience, covering all facets of the business that require both entrepreneurial and custodian oversight. All non-executive directors are considered to be independent in terms of character and judgement. The board is aware of the need to maintain and build upon this balance of backgrounds and to maintain a diversity of talent through succession planning as the Company continues to develop and the needs of the business grow.

Michael Doyle and David Mitchell both hold shares and options in the Company of more than 1% of the Company's issued share capital. As set out in the UK Corporate Governance Code, these directors would not be considered independent. However, the board believes that each provides independent judgement and challenge.

The board considers Tim Linacre and Catherine Stalker to be independent directors. The Company is delighted that Mr. Linacre and Ms. Stalker have decided to invest personal funds into ordinary shares in the Company. The Company believes that this investment demonstrates an alignment of interests between these individuals as non-executive directors and the Company. However, the size of these holdings represents less than 1% per cent of the Company's issued share capital and therefore the Company does not consider the size of the holdings to compromise independence. The Company thereby meets the QCA guidelines of having two independent non-executive directors.

Describe the time commitment required from directors (including non-executive directors as well as part-time executive directors)

The executive directors are expected to devote the whole of their working time to their duties with the Company. The non-executive directors have a lesser time commitment. It is anticipated that non-executive directors will each dedicate 12 days a year to their duties as board members.

Include the number of meetings of the board (and any committees) during the year, together with the attendance record of each director

Full details of the number of board and committee meetings held and the attendance record of each of the directors are provided on page 42.

QCA Code Compliance Disclosures / continued

Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills, and capabilities

Application: The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities.

Identify each director

Information on each of the directors is provided in the 2021 annual report on pages 38 to 39.

Describe the relevant experience, skills and personal qualities and capabilities that each director brings to the board (a simple list of current and past roles is insufficient); the statement should demonstrate how the board as a whole contains (or will contain) the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the company for the benefit of the shareholders over the medium to long-term

The board of directors possesses a wide range of experience and skills. To meet the requirements of an independent upstream oil and gas exploration, development, and production company, the directors' experience and skills must cover financial, legal, operational, and technical knowledge of risk management and growth in the independent sector and in public markets. Each of the directors on the board, both executive and non-executive, has considerable experience and all have skills that are complementary and sufficient to cover all the requirements of the board. The composition of the board is regularly reviewed to ensure that it has the necessary breadth and depth of skills to support the ongoing development of the Group and the management team. The Company strives to maintain a diverse board. For background information on each of the directors, please refer to pages 38 to 39.

Explain how each director keeps his/her skillset up to date

The executive directors keep the board up to date on areas of new governance and liaises with the Company's lawyers and Nomad on AIM requirements. Board members have significant experience within the industry and in public and financial markets. The board receives support and advice from its Nomad on AIM requirements as and when required, and from other advisors (including legal counsel and the independent auditors) on developments relevant to directors' roles. Each director is also encouraged to discuss any matter of interest with the company's professional advisors, as needed.

Where the board or any committee has sought external advice on a significant matter, this must be described and explained

The Reserves Committee engages independent reserves auditors to provide an independent competent persons report on the Company's end of year reserves. The Remuneration Committee engages external advisors to provide external benchmarking for executive and non-executive remuneration.

Where external advisers to the board or any of its committees have been engaged, explain their role

Details of the Company's advisors can be found on the website:
www.sdxenergygroup.com/investors/advisors/

Describe any internal advisory responsibilities, such as the roles performed by the company secretary and the senior independent director, in advising and supporting the board

The directors have access to an outsourced company secretary as and when required.

The board does not currently consider it necessary to appoint a senior independent director. The chairman discusses matters arising with fellow non-executive directors and the group is available to hold discussions with shareholders, when necessary.

QCA Code Compliance Disclosures / continued

Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Application: The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

Include a high-level explanation of the board performance effectiveness process

In late 2020 the Nominations Committee commenced a board performance review, the results of which were evaluated in 2021. This exercise was conducted internally, drawing on the experience of the chair of the Nominations Committee in conducting similar evaluations in her other roles. In future, external facilitation may be used.

The following areas were covered by the review:

- Board oversight of development and implementation of strategy;
- Creation and support of a high-performing management team;
- Financial reporting;
- Risk management;
- Stakeholder management;
- Effectiveness of board and committee meetings;
- Personal development requirements and ensuring they are satisfied; and
- Additional relevant areas.

For further discussion, see the Nominations Committee report on page 54.

Where a board performance evaluation has taken place in the year, provide a brief overview of it, how it was conducted and its results and recommendations. Progress against previous recommendations should also be addressed

A board performance evaluation commenced in 2020 and was finalised in 2021, see the Nominations Committee report, on page 54. The next board evaluation will be undertaken at an appropriate time, expected to be within the next 12 to 24 months.

Include a more detailed description of the board performance evaluation process/cycle adopted by the Company. This should include a summary of:

- The criteria against which board, committee and individual effectiveness is considered;
- How evaluation procedures have evolved from previous years, the results of the evaluation process and action taken or planned as a result; and
- How often board evaluations take place

A board performance evaluation commenced in 2020 and was finalised in 2021, see the Nominations Committee report, on page 54. The next board evaluation will be undertaken at an appropriate time, expected to be within the next 12 to 24 months.

Explain how the Company approaches succession planning and the processes by which it determines board and other senior management appointments, including any links to the board evaluation process

The Nominations Committee, which reports to board, is responsible for succession planning taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the board in the future.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

Application: The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

Include in the chair's corporate governance statement how the culture is consistent with the Company's objectives, strategy and business model in the strategic report and with the description of principal risks and uncertainties. The statement should explain what the board does to monitor and promote a healthy corporate culture and how the board assesses the state of the culture at present

The board of directors establishes the corporate culture of the Company and the chief executive officer communicates it to the Company through scheduled internal meetings with the executive committee, which in turn disseminate it throughout the organisation. By this means, the Company's strategy, objectives, and approach to health, safety, environmental, and diversity issues are communicated to all employees with the board maintaining full oversight.

Please see the chair's corporate governance statement on page 40.

Explain how the board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected

The Company operates a full feedback system by which the chairman, chief executive officer or chairman of the Audit Committee are made aware of any deviation from the Company's ethical values.

QCA Code Compliance Disclosures / continued

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the board

Application: The Company should maintain governance structures and processes in line with its corporate culture and appropriate to its size and complexity; and capacity, appetite and tolerance for risk.

Describe the roles and responsibilities of the chair, chief executive, and any other directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder groups)

Other than as described above, there are no specific individual responsibilities or remits.

Describe the roles of any committees (e.g. audit, remuneration and nomination committees) setting out any terms of reference and matters reserved by the board for its consideration

Please refer to pages 50 to 56.

Further information relating to the Company's committees can be found on the Company's website
<https://www.sdxenergygroup.com/esg/corporate-governance/#board-committees>

Describe which matters are reserved for the board

The Company's terms of reference are published on the corporate website. The following matters are a summary of the matters that require board approval:

Strategy and plans: responsible for supervising the formulation of the strategic direction, plans, and priorities for the Company; approving capital expenditure budgets and related operating plans; and approving material divestitures and acquisitions;

Financial and corporate issues: responsible for ensuring the implementation and integrity of the Company's internal control and management information systems; approving financial statements and approving their release by management;

Identification and management of risks: responsible for ensuring that management has identified the principal risks of the Company's business and implemented appropriate strategies to manage the risks;

Policies and procedures: responsible for monitoring compliance with all significant policies and procedures by which the Company is operated;
Oversight of communications and public disclosure: ensuring that the Company has in place effective, accurate, and timely disclosure and communication processes with shareholders and financial, regulatory, and other recipients;

Corporate governance matters: review the Company's overall corporate governance arrangements;

Other: retain, oversee, compensate, and terminate the independent advisors who assist the board in its activities.

Describe any plans for evolution of the governance framework in line with the Company's plans for growth

As the business grows and committee member changes are made, the Company plans to focus on the results of the recent board evaluation. Each committee chairman also plans to refresh each committee's terms of reference, which shall reflect the Company's plans for growth.

Principle 10: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

Describe the work of any board committees undertaken during the year

Please refer to pages 50 to 56.

Include an audit committee report (or equivalent report if such committee is not in place)

Please refer to page 55.

Include a remuneration committee report (or equivalent report if such a committee is not in place)

Please refer to pages 50 to 53.

If the Company has not published one or more of the disclosures set out under Principles 1-10, the omitted disclosures must be identified and the reason for their omission explained

The Company has published all of the disclosures set out under Principles 1-10 and has not omitted any disclosures.

Remuneration Committee Report

Catherine Stalker
Chairman of the
Remuneration Committee



The purpose of the Committee is to assist the Board in discharging its oversight responsibilities relating to the attraction, compensation, evaluation and retention of Executive Directors, being currently the Chief Executive Officer and Chief Financial Officer, and senior management.

The Remuneration Committee is a standing committee of the board of the Company. It comprises two independent non-executive directors, including the committee chair. Current committee members are Catherine Stalker (chair) and Tim Linacre.

The purpose of the committee is to assist the board discharge its oversight responsibilities relating to the attraction, compensation, evaluation and retention of executive directors, who are currently the chief executive officer, chief financial officer, and senior management. Its role is to ensure that the Company has the right skills and expertise it needs to achieve its strategy and that fair and competitive compensation is awarded with appropriate performance incentives. SDX's remuneration policy is intended to support the Company's purpose, values, and strategy. In practice, this is implemented through the mechanisms such as Key Performance Indicators that drive annual bonuses and Performance Measures that are featured in the Long Term Incentive Plan.

The committee held two meetings during 2021. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Consideration by the committee of matters relating to directors' and senior managers' remuneration

The committee oversees the overall compensation policy for the senior managers and executive directors of the Company. Subject to the approval of the board, it is responsible for:

- setting and regularly reviewing the remuneration policy for all executive directors, senior managers and the Company's chairman, including pension rights and any compensation payments or benefits, such as share options, share schemes, or any other benefit;
- monitoring the level and structure of remuneration for senior management;
- obtaining reliable, up-to-date information about remuneration in other companies of comparable scale and complexity;
- approving the design of any performance-related pay schemes the Company operates, including determining associated performance targets and approving the total annual payments made under such schemes. These schemes will enable the Company to recover sums paid or withhold payment in certain circumstances;
- reviewing the design of all share incentive plans for approval by the board and shareholders and determining each year the overall and individual amount of awards, if any, to be granted, and the performance targets to be used;
- determining the policy for, and scope of, pension arrangements for each executive director and other designated senior executives;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded, and that the duty to mitigate loss is fully recognised;
- reviewing the directors' compensation disclosure required to be included in the Annual Report; and
- taking a wider view on workforce remuneration and human resource policies.

The Company is committed to maintaining an open and transparent dialogue with shareholders on all aspects of remuneration within the Group.

Remuneration Committee Report / continued

Summary of work undertaken during 2021

- The committee reviewed attainment against the 2020 KPIs and associated bonus pool. The allocation and payment of this bonus pool would normally be undertaken in March-April 2021. However, it was deferred given the prevailing uncertainty associated with COVID-19 and macroeconomic conditions.
- The committee considered several alternatives for the 2020 KPI bonus given the impact of the pandemic and, taking into consideration the attainment of production and cash balance targets, and that no government support, such as furlough or tax holidays, had been taken, the board subsequently approved a partial cash bonus to be paid in August 2021. For the executive directors, this equated to 25% of bonus opportunity. Total compensation paid to Executive Directors with respect to 2020 was 15% (N.Box) and 18% (M. Reid) lower than 2019 levels.
- The committee reviewed and recommended the 2021 KPIs for the bonus plan.
- The committee reviewed and recommended the Long-Term Incentive Plan ("LTIP") awards to new joiners and the partial vesting of the 2018 LTIP awards. The committee did not recommend an LTIP award grant for 2021.
- The Committee reviewed the competitiveness of Executive Director salaries and recommended a 5% increase for Nick Box.
- The Committee looked more widely at the competitiveness of remuneration arrangements for senior management, reviewing the bonus pool for senior managers as well as their pay and benefits.

2022 looking forward

During the year, the committee will:

- Consider the final bonus outturn for 2021
- Establish KPIs for the 2022 bonus
- Consider an LTIP award grant

Executive directors' service contracts

The commencement date and notice period of the executive director service contracts are set out below:

| Director | Commencement date | Notice period |
|-----------|-------------------|---|
| Mark Reid | 12 November 2019 | 6 months from the Executive and Company 12 months in the event of a Change of Control ⁽¹⁾ |
| Nick Box | 12 November 2019 | 6 months from the Executive and Company 12 months in the event of a Change of Control ⁽¹⁾ |

(1) "Change of Control" means the acquisition by any person (or the right to acquire), whether by a series of transactions over a period of time or not, an interest in shares of the Company which (taken together with shares in which persons acting in concert with him are interested) carry 50% or more of the voting rights of the Company.

Executive remuneration

The table below sets out the remuneration and breakdown for each executive director paid for the 2021 and 2020 financial years in GBP:

| | Mark Reid (GBP) | Nick Box (GBP) |
|-----------------------------|--------------------|-------------------|
| Salary ⁽¹⁾ | 300,000 | 155,625 |
| Annual bonus ⁽²⁾ | - | - |
| Benefits ⁽³⁾ | 1,806 | 4,944 |
| Pension | 17,500 | 8,938 |
| Total 2021 | 319,306 | 169,507 |
| Salary | 300,000 | 150,000 |
| Annual bonus ⁽⁴⁾ | 75,000 | 37,500 |
| Benefits ⁽³⁾ | 1,511 | 3,494 |
| Pension | 15,000 | 7,500 |
| Total 2020 | 391,511 | 198,494 |

(1) Mr. Box's salary increased from £150,000 to £157,500 effective 1 April 2021.

(2) 2021 bonuses for Messrs. Reid and Box have been deferred due to ongoing macroeconomic uncertainty.

(3) Benefits include participation in the Group's medical insurance, income protection insurance and life insurance schemes.

(4) It was disclosed in the 2020 Annual Report that the annual bonuses for Messrs. Reid and Box had been deferred. In August 2021, Mark Reid and Nick Box were awarded a cash bonus which equated to 25% of their bonus opportunity.

Remuneration Committee Report / continued

Share option plans

The Company operates three discretionary incentive share plans which permit the grant of share-based awards: the SDX Energy Plc Long-Term Incentive Plan (the "LTIP"), which permits the granting of share-based awards, the SDX Energy Plc Company Share Option Plan ("CSOP"), and the SDX Energy Plc Stock Option Plan, collectively known as the discretionary plans.

The objective of the discretionary plans is to develop the interest of directors, officers, employees, and certain consultants in the growth and development of the Group by providing them with the opportunity to acquire an interest in the Company and to assist the Company in retaining and attracting executives with experience and ability.

The discretionary plans govern all future grants of share awards from the Company to directors, officers, employees, and certain consultants of the Group. The directors ensure that the maximum number of ordinary shares that may be issued pursuant to the discretionary plans does not exceed 10% of the issued ordinary shares of the Company in line with the recommendations of the Association of British Insurers. As at the date of this report, this figure is 3.5%.

In 2021, the Company incurred share-based payment charges of \$156k (2020: \$114k) in respect of discretionary plan awards to directors.

Long-Term Incentive Plan

LTIP awards are structured as nil-cost options or conditional share awards and vesting is subject to the satisfaction of certain performance targets at the end of a three-year period from the date of grant. Vested options may be exercised up to 10 years from the date of grant.

Upon completion of their respective probation periods, five new joiners were awarded LTIP awards on the same basis as the 2020 LTIP award, as disclosed in the 2020 Annual Report.

LTIP awards granted in March 2018 and LTIP awards to new joiners in 2018 reached their vesting dates during 2021. The committee considered outturn against the performance targets within the awards and concluded that the corporate performance measures had been partially achieved (20% attainment) such that a total of 258,137 options would vest over ordinary shares, representing 0.126% of the Company's current issued share capital at that time. The Total Shareholder Return performance measure was not achieved. This recommendation was made to the board of directors, which exercised its discretion in approving the partial vesting.

As at the date of this report, the following awards made to certain directors and employees under the LTIP were outstanding:

| Director/employees | Total number of LTIP awards outstanding |
|--|--|
| Mark Reid | 2,003,524 |
| Nick Box | 915,593 |
| Employees below Board level (in aggregate) | 3,877,837 |
| Total | 6,793,954 |

It is the intention that LTIPs are awarded on an annual basis and the committee will consider an award in 2022.

Remuneration Committee Report / continued

Stock Option Plan

The following awards have been granted to certain directors and employees under the Stock Option Plan. The most recent grant was July 2017.

| Director | Total number of Stock Options granted |
|----------------|--|
| Michael Doyle | 160,000 |
| David Mitchell | 160,000 |
| Total | 320,000 |

Stock Option Plan awards contain an exercise price, which is determined at the date of grant with reference to the market value. The options are not subject to performance targets and vest annually over a three-year period. All 320,000 outstanding options have vested. Vested options may be exercised up to five years from the date of grant. During the period, 40,000 vested options expired.

The exercise price of the outstanding options, which expire in July 2022, is £0.45.

Non-executive director fees

| | 2021 fees GBP ⁽¹⁾ | 2020 fees GBP |
|----------------------------------|------------------------------|---------------|
| Michael Doyle | 70,000 | 70,000 |
| Tim Linacre | 45,000 | 45,000 |
| Amr Al Menhali ⁽²⁾ | 20,000 | 40,000 |
| David Mitchell | 45,000 | 45,000 |
| Catherine Stalker ⁽⁴⁾ | 45,000 | 40,603 |

(1) In 2021, the Chairmans fee remained at £70,000 and director fees remained at £40,000. Committee Chair fees remained at £5,000, other than the Nominations Committee Chair fee which is £nil.

(2) Amr Al Menhali stood down as a director on 25 June 2021.

(3) Catherine Stalker was appointed as a director on 6 February 2020.

External advisors

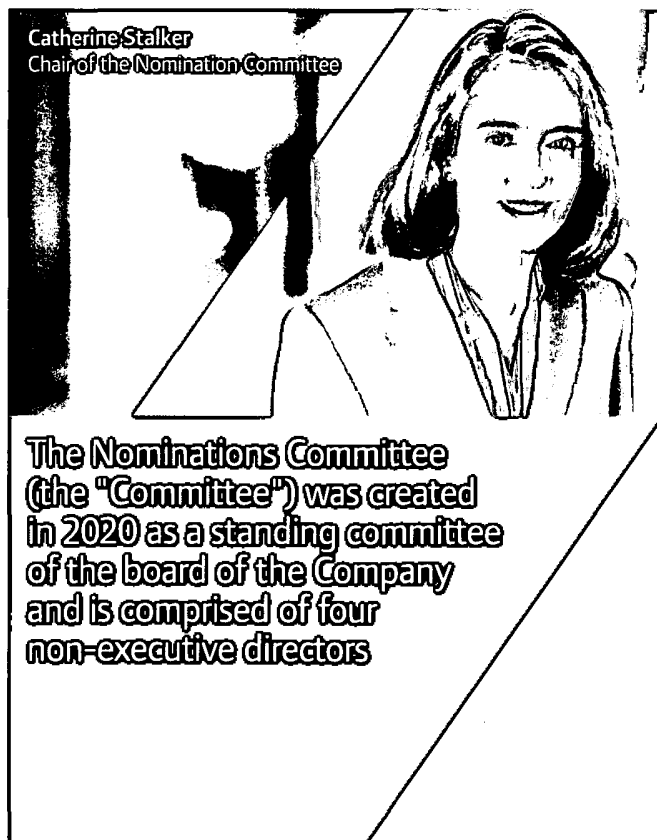
The committee has used the services of PricewaterhouseCoopers LLP to provide ad hoc advice addressing a number of remuneration matters.

Fees totalling GBP 5,000 were charged for this advice.

Catherine Stalker

Chair of the Remuneration Committee
18 March 2022

Nomination Committee Report



The Nomination Committee is a standing committee of the board of the Company. It comprises two independent non-executive directors and two non-independent non-executive directors. The current members are Catherine Stalker (chair), Michael Doyle, Tim Linacre, and David Mitchell.

The purpose of the committee is to oversee:

- effective succession planning for the board, its committees, and the senior executives of the Company
- the structure, effectiveness, and performance of all members of the board and of all board committees; and
- the recruitment and induction of directors.

The committee held one meeting during the year. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Subject to the approval of the board, the committee is responsible for:

- regularly reviewing the structure, size, and composition (including the skills, knowledge, experience, and diversity) of the board and making recommendations to the board with regard to any changes;
- succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the board in the future;
- identifying and nominating for the approval of the board, candidates to fill board vacancies as and when they arise; and
- establishing, reviewing, and leading the board performance evaluation process.

Summary of work undertaken during 2021

- The committee finalised the board performance evaluation exercise which was started in late 2020. This exercise was conducted internally, drawing on the experience of the chair of the committee in conducting similar evaluations in her other roles.
- As reported last year, the evaluation took the form of an online questionnaire that all directors completed in December 2020, followed by a discussion of the results at the committee meeting in February 2021.
- In the course of 2021, the board continued to work on areas identified in the evaluation including:
 - gaining more visibility of the wider senior team such as the Facilities Manager and country managers by increasing their participation at meetings, which has been implemented in 2021
 - continuing to enhance information provided to the board, including a revamped risk register and reporting on development actions in relation to HSE
 - overseeing culture by considering the results of the employee engagement survey, which was undertaken by management in March 2021. The results were presented and discussed, with a number of actions taken.
- The committee undertook a detailed review of the performance of the executive directors and the CEO reported to the committee on his review of all senior employees of the company.

2022 looking forward

It is intended that the committee will meet at least twice in 2022. A board evaluation during 2022 is planned to review how the board's effectiveness is developing, and to track progress made on the points identified in the last evaluation. The committee will continue to work on succession planning for the board in 2022.

Catherine Stalker
Chair of the Nomination Committee
18 March 2022

Audit Committee Report

Tim Linacre
Chair of the Audit Committee



Overall, the Committee reviewed and was satisfied that the judgments exercised by management on material items contained within the Annual Report and Financial Statements are reasonable.

The Audit Committee is a standing committee of the board of the Company. It comprises two non-executive directors, currently Tim Linacre (chair) and Michael Doyle.

An important part of the role of the committee is reviewing and monitoring the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment, and reporting of risk. The Audit Committee is also responsible for overseeing the relationship with the external auditor, including an ongoing assessment of its independence and objectivity.

The Committee met four times during the year and the members' attendance record at committee meetings is set out in the Corporate Governance section on page 42. After each meeting, the chair of the Audit Committee reports to the board on its proceedings.

An essential part of the integrity of the financial statements is the key assumptions and estimates or judgments to be made. The committee reviews key judgments prior to publication of the financial statements at both the end of the financial year and at the end of interim periods. It also considers significant issues throughout the year. During 2021, these matters included:

- Reviewing the key assumptions management uses to assess the carrying values of assets for potential impairment:
 - As disclosed in the Group financial statements, the South Disouq asset was tested for impairment, with a charge of US\$9.5 million recorded in 2021;
 - As disclosed in the Parent Company financial statements, the investment in subsidiaries was tested for impairment, but no charge was required; and
- Assessing the impact of COVID-19 and oil price volatility on the Group's financial statements and other disclosures, including those regarding going concern status.

Overall, the committee was satisfied that management judgments on material items contained within the Annual Report and Financial Statements are reasonable.

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness, and the requirements for an internal audit function in the context of the Group's overall risk management system. It is satisfied that the Group does not currently require an internal audit function; however, it will continue to review this position periodically.

The board has engaged PricewaterhouseCoopers LLP ("PwC") to act as an external auditor. PwC is also invited to attend committee meetings unless a conflict of interest exists. PwC was re-appointed during the financial year, having held office with the Company and its predecessors since 2012. The SDX Group fee to PwC for the financial year to 31 December 2021 is GBP250,000. The Audit Committee will undertake a comprehensive review of the quality, effectiveness, value, and independence of the audit PwC provides each year, seeking the views of the wider board and relevant members of the committee.

Although PwC has been the Company's auditor for nine years, the committee is comfortable that PwC's audit remains independent. As required under applicable regulations, PwC replaced the senior statutory auditor, with Timothy McAllister taking over for the 2021 financial year.

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

Responsibilities

The Committee reviews and makes recommendations to the board on:

- the application of significant accounting policies and any changes to them;
- whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor and the financial statements;
- compliance with accounting standards and legal and regulatory requirements;
- disclosures in the interim and annual report and financial statements;
- reviewing the effectiveness of the Group's financial and internal controls;
- any significant concerns of the external auditor about the conduct, results, or overall outcome of the annual audit of the Group;
- the provision of any non-audit services by the external auditors' firm or its affiliates; and
- any matters that may significantly affect the independence of the external auditor.

Tim Linacre
Chair of the Audit Committee
18 March 2022

Reserves Committee Report



David Mitchell
Chair of the Reserves Committee

The Reserves Committee (the "Committee") is a standing committee of the Board of the Company and is comprised of two Non-Executive directors.

The Reserves Committee (the "Committee") is a standing committee of the Company board and comprises two non-executive directors, David Mitchell (chairman) and Michael Doyle.

The Committee is responsible, inter alia, for arranging the preparation and review of the Company's annual regulatory reserve reporting, liaising with the Company's qualified independent reserves auditor, and recommending the report to the board for approval. It is also responsible for appointing the qualified independent reserves auditor, ensuring their independence, and assessing their performance and relationship with the Company.

The Committee meets at least once a year prior to the approval of the annual report and annual regulatory reserve reporting.

2021

- Evaluated the effectiveness of the Company's policies, practices, and procedures for estimating the Company's oil and gas reserves.
- Met with the qualified independent reserves auditors to discuss the performance of their audit, their access to management and information, their estimation methodologies and key judgements, and their independence.
- Met as a committee to discuss and recommend for approval to the board the Gaffney, Cline & Associates' Competent Persons Report for the SDX Energy Plc Group (effective 31 December 2021) and associated regulatory filings.

2022 looking forward

- Review the Company's procedures for providing information to the qualified reserves evaluator or auditor who reports on reserves data.
- Meet with management and the qualified reserves evaluator or auditor to review the reserves data and the auditor's annual reserves report.
- Determine whether any restrictions affect the ability of the qualified reserves evaluator or auditor to report on reserves data without reservation.
- Review and recommend to the board for approval the content and filing of the Company's annual statement of reserves data and other oil and gas information.

David Mitchell
Chair of the Reserves Committee
18 March 2022

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). In preparing the Group financial statements, the directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

The Group has also prepared financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

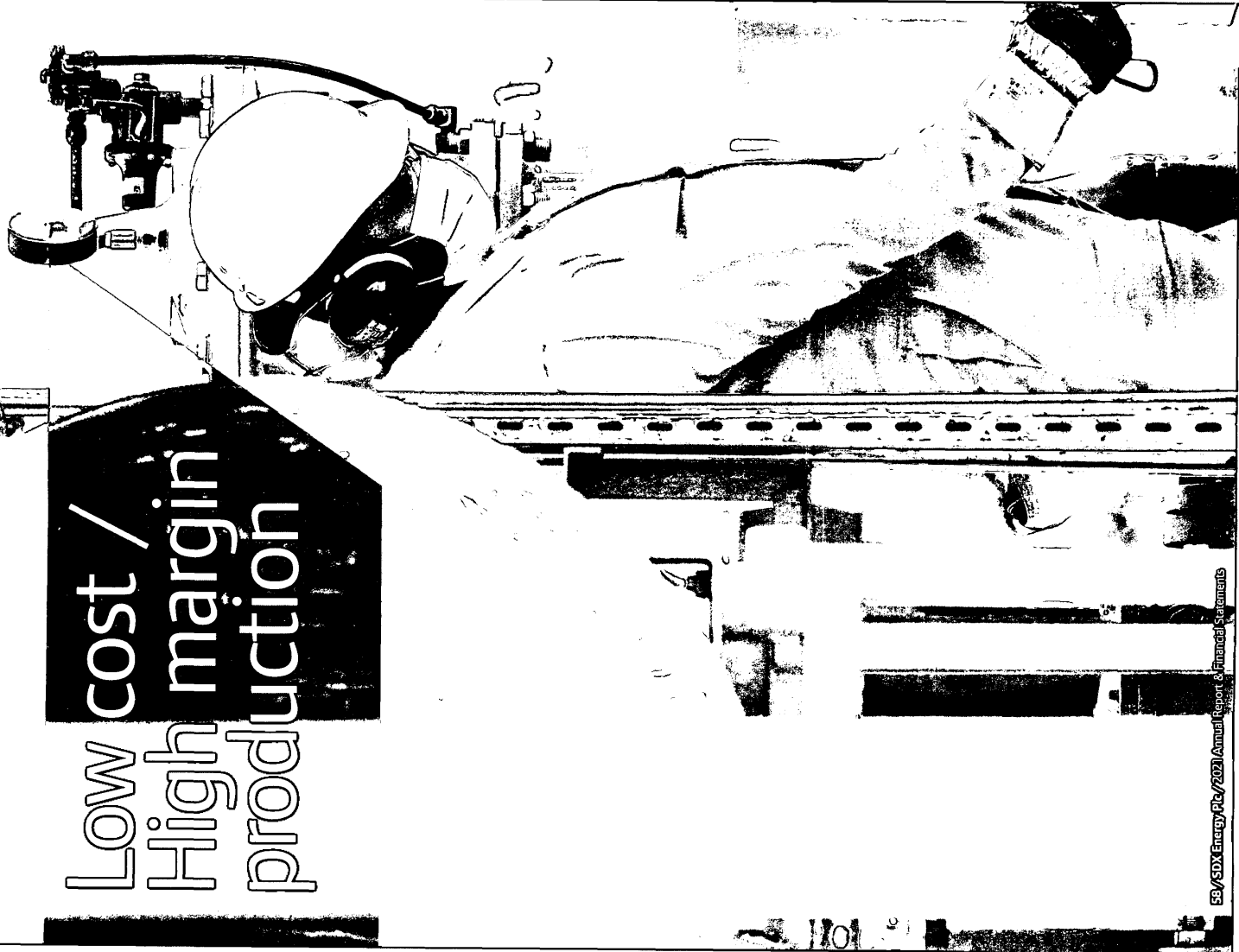
- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Low cost /
High margin
production





Group Financial Statements

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Independent auditors' report to the members of SDX Energy Plc

Report on the audit of the financial statements

Opinion

In our opinion:

- SDX Energy Plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Consolidated Balance Sheet and the Parent Company Balance Sheet as at 31 December 2021; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash flows, the Consolidated Statement of Changes in Equity and the Parent Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the financial statements, the Group, in addition to applying UK-adopted international accounting standards, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the Group, in addition to applying UK-adopted international accounting standards, has also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Independent auditors' report to the members of SDX Energy Plc

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("ISAs") and applicable law. Our responsibilities under ISAs (UK) and ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- We conducted full scope audits of four components out of the Group's twenty-two components which were selected due to their size and risk characteristics. An audit of one or more account balances, classes of transactions or disclosures was performed on certain balances and transactions at a further three components.
- This enabled us to obtain coverage of 100% of consolidated revenue, 98% coverage of consolidated loss before tax and 99% coverage of consolidated total assets of the Group.

Key audit matters

- Carrying value of oil and gas properties and exploration and evaluation assets (Group)
- Carrying value of Investments in Subsidiaries (Parent)

Materiality

- Overall Group materiality: US\$980,000 (2020: US\$1,245,000) based on 1% of total assets.
- Overall Parent Company materiality: £450,000 (2020: £380,000) based on 1% of total assets.
- Performance materiality: US\$735,000 (2020: US\$933,750) (Group) and £337,500 (2020: £285,000) (Parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The impact of COVID-19 (Group and Parent), which was a key audit matter last year, is no longer included because of the relatively insignificant financial and operational impact of COVID-19 on the Group during the year under audit. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of SDX Energy Plc

Our audit approach (continued)

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Carrying value of oil and gas properties and exploration and evaluation assets (Group)</p> <p>Refer to note 4 Significant accounting policies, note 8 Property, plant and equipment and note 9 Exploration and evaluation assets. As at 31 December 2021, the consolidated balance sheet carrying value of property, plant and equipment totalled US\$34.6 million (comprising US\$34.0 million of oil and gas properties) and capitalised exploration costs totalled US\$21.6 million. As disclosed in note 8, management identified an impairment trigger in respect of South Disouq. Management prepared an assessment of the recoverable amount using the Value-in-Use ("VIU") methodology for this cash-generating unit ("CGU"), concluding that an impairment loss of \$9.5 million had occurred. We focused on this area due to the material nature of the balance and the estimation uncertainty in assessing the recoverable amount of this CGU.</p> | <p>We evaluated management's impairment trigger assessment for its oil and gas properties and its exploration and evaluation assets. We agreed with its assessment that an impairment trigger has arisen in respect of South Disouq. In respect of management's assessment of the VIU of South Disouq we:</p> <ul style="list-style-type: none">• Evaluated the compliance of management's assessment of recoverable amount for South Disouq with applicable accounting standards;• Obtained management's discounted cash flow model and assessed its mathematical accuracy;• Verified that its gas price assumptions were in line with the underlying contractual agreements for the asset;• Engaged PwC Valuation experts to assist us in assessing the reasonableness of the components of the discount rate applied by management;• Assessed the competency, independence and objectivity of the experts in relation to the estimation of commercial reserves. We discussed the key judgements and assumptions used in the report directly with the experts;• Assessed the extent to which risk had been appropriately taken into account in management's estimate; and• Recalculated the impairment loss derived by management. <p>Based on the above procedures, we are satisfied that management's estimate of the impairment loss in respect of South Disouq is reasonable. Finally, we considered the adequacy of management's disclosure of the key judgements and sensitivities in relation to the impairment assessment and found these to be reasonable.</p> |
| <p>Carrying value of investment in subsidiaries (Parent)</p> <p>Refer to Note 2 Critical accounting judgements and key sources of estimation uncertainty and Note 6 Investments to the Parent Company Financial Statements. The carrying value of the Parent Company's Investments in Subsidiaries was £40.9 million at 31 December 2021. This represents 89% of the Parent Company's total assets. Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amount of the investments in subsidiaries is estimated in order to determine the extent of the impairment loss, if any.</p> <p>The carrying value of the investments significantly exceeded the market capitalisation of the Parent Company at 31 December 2021. This has been identified as an indicator of impairment, which necessitated an impairment assessment to be performed.</p> <p>Judgement is required in this area, particularly in assessing: (1) whether the carrying value of an asset can be supported by the recoverable value, being the higher of fair value less cost of disposal or the net present value of future cash flows which are estimated based on the continued use of the assets in the business; and (2) key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.</p> | <p>We evaluated management's determination of whether any indicators of impairment existed by comparing the carrying value of Investment in Subsidiaries to the market capitalisation of the Group at 31 December 2021 and agreed that an impairment assessment was necessary. The recoverable value of the Group was determined based on management's estimate of the discounted future cash flows of the Group, on a "value-in-use" basis. In respect of this assessment we:</p> <ul style="list-style-type: none">• Tested the reasonableness of the key assumptions used, including the price forecasts, expenditure forecasts, reserves assumptions and the discount rate that management has applied.• Tested that the underlying assumptions were consistent with management's board-approved plans based on an asset run-down scenario.• Utilised our PwC Valuation experts in assessing the discount rate and pricing assumptions used in the model.• Assessed the competency, independence and objectivity of the experts in relation to the estimation of commercial reserves. We discussed the key judgements and assumptions used in the report directly with the experts.• Performed our own independent sensitivity analysis to understand if reasonable possible changes in management's assumptions would result in an impairment. <p>As a result of our work, we did not identify any material impairment and consider the carrying value of the Investments in Subsidiaries to be supportable in the context of the Parent Company Financial Statements.</p> <p>We have assessed the disclosures provided, including the sensitivity disclosures and consider them to be appropriate given the estimation uncertainty inherent in the analysis.</p> |

Independent auditors' report to the members of SDX Energy Plc

Our audit approach (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of twenty-two components with two operating segments, being Morocco and Egypt. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed over the components either by the Group engagement team or the component auditors from other PwC network firms operating under our instruction.

Our interactions and procedures over our component auditors in Egypt comprised of the following:

- We determined the areas of key audit risks that related to the Egyptian entities' business activities and the audit procedures that would be required to address these risks. We allocated the execution of these procedures between the Group audit team and our component audit team in Egypt; and
- The Group audit team had ongoing communication with our component team in Egypt throughout the interim and year end audit; we also reviewed the component auditors' key working papers.

We identified four components that, in our view, required full scope audits due to their relative size or risk characteristics, of which two were considered to be financially significant components. The full scope audits of two Egyptian components were performed by our component audit team in Egypt. In addition, our component audit team in Egypt performed an audit of one or more account balances, classes of transactions or disclosures on one further Egyptian component. The Group engagement team performed the full scope audit of the Morocco component and one UK component and in addition, performed an audit of one or more account balances, classes of transactions or disclosures on two further UK components. The above gave us coverage of 100% of consolidated revenue, 98% coverage of consolidated loss before tax and 99% coverage of consolidated total assets for the Group.

The Group engagement team directly performed the audit of the consolidation. This together with additional procedures performed at the Group level gave us the evidence we needed for our opinion of the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements-Group | Financial statements-Parent Company |
|---------------------------------|---|--|
| Overall materiality | US\$980,000 (2020: US\$1,245,000). | £450,000 (2020: £380,000). |
| How we determined it | 1% of total assets | 1% of total assets |
| Rationale for benchmark applied | This benchmark reflects the Group's primary focus to continue to enlarge its assets through significant investment in its exploration and development assets. | We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between US\$50,000 and US\$850,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to US\$735,000 (2020: US\$933,750) for the Group financial statements and £337,500 (2020: £285,000) for the Parent Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above US\$49,000 (Group audit) (2020: US\$67,000) and £22,500 (Parent Company audit) (2020: £19,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of SDX Energy Plc

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Assessed the mathematical accuracy of management's cash flow forecast and validated the opening cash position;
- Validated management's underlying cash flow projections for the Group through to December 2023 to other external and internal sources where appropriate, including recent production data, oil price forecasts and comparing cost assumptions to historic actuals and underlying budgets;
- Performed sensitivity analysis to assess the impact of the key assumptions underlying the forecast such as a reduction in oil price, reduction in production and the Group's ability to take mitigating actions, if required; and
- Reviewed the completeness and appropriateness of management's going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax regulations, employment laws, health and safety regulation, competition and anti-bribery laws and data protection regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

Independent auditors' report to the members of SDX Energy Plc

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

- Inquiries of management and making enquiries of the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Understanding and evaluating controls designed to prevent and detect irregularities and fraud.
- Assessing significant judgements and estimates in particular those relating to impairment of oil and gas assets, impairment of exploration and evaluation assets and investment impairment assessment, and the disclosure of these items (as outlined further in the "Key audit matters" section of this report).
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements in accordance with ISAs (UK) is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group and the Parent Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

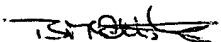
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 March 2022

Consolidated Balance Sheet

As at 31 December 2021

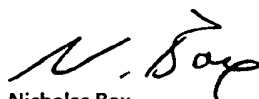
| US\$'000s | Note | As at 31 December 2021 | As at 31 December 2020 |
|--------------------------------------|------|------------------------------|------------------------------|
| Assets | | | |
| Cash and cash equivalents | 6 | 10,562 | 10,056 |
| Trade and other receivables | 6 | 19,942 | 18,608 |
| Inventory | 7 | 6,747 | 8,414 |
| Current assets | | 37,251 | 37,078 |
| Investments | 10 | 3,593 | 3,790 |
| Property, plant and equipment | 8 | 34,593 | 57,880 |
| Exploration and evaluation assets | 9 | 21,611 | 24,455 |
| Right-of-use assets | 20 | 1,367 | 1,400 |
| Non-current assets | | 61,164 | 87,525 |
| Total assets | | 98,415 | 124,603 |
| Liabilities | | | |
| Trade and other payables | 11 | 17,157 | 20,120 |
| Decommissioning liability | 12 | 22 | 327 |
| Current income taxes | 13 | 1,150 | 241 |
| Lease liability | 20 | 439 | 461 |
| Current liabilities | | 18,768 | 21,149 |
| Decommissioning liability | 12 | 5,747 | 5,862 |
| Deferred income taxes | 13 | 290 | 290 |
| Lease liability | 20 | 956 | 960 |
| Non-current liabilities | | 6,993 | 7,112 |
| Total liabilities | | 25,761 | 28,261 |
| Equity | | | |
| Share capital | 14 | 2,601 | 2,601 |
| Share premium | | 130 | 130 |
| Share-based payment reserve | | 7,536 | 7,269 |
| Accumulated other comprehensive loss | | (917) | (917) |
| Merger reserve | | 37,034 | 37,034 |
| Retained earnings | | 26,270 | 50,225 |
| Total equity | | 72,654 | 96,342 |
| Equity and liabilities | | 98,415 | 124,603 |

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

The financial statements on pages 66 to 90 were approved by the board of directors on 18 March 2022 and signed on its behalf by:



Mark Reid
Chief Executive Officer and Director



Nicholas Box
Chief Financial Officer and Director

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

| US\$'000s | Notes | Year ended 31 December | |
|---|-------|------------------------|----------------|
| | | 2021 | 2020 |
| Revenue, net of royalties | 16 | 53,860 | 46,068 |
| Direct operating expense | | (9,732) | (9,535) |
| Gross profit | | 44,128 | 36,533 |
| Exploration and evaluation expense | 9 | (14,085) | (5,809) |
| Depletion, depreciation and amortisation | 8,20 | (32,624) | (25,192) |
| Impairment expense | 8 | (9,528) | - |
| Share-based compensation | 15 | (267) | (231) |
| Share of profit from joint venture | 10 | 383 | 696 |
| General and administrative expenses | | | |
| - Ongoing general and administrative expenses | 17 | (4,251) | (3,972) |
| - Transaction costs | 17 | - | (152) |
| Operating (loss)/income | | (16,244) | 1,873 |
| Finance costs | | (641) | (598) |
| Foreign exchange (loss)/gain | | (179) | 153 |
| (Loss)/income before income taxes | | (17,064) | 1,428 |
| Current income tax expense | 13 | (6,891) | (5,254) |
| Profit from discontinued operations | 21 | - | 1,768 |
| Loss and total comprehensive loss for the period | | (23,955) | (2,058) |
| Net loss per share | | | |
| Basic | 18 | \$(0.117) | \$(0.010) |
| Diluted | 18 | \$(0.117) | \$(0.010) |

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| US\$'000s | Notes | Year ended 31 December | |
|---|-------|------------------------|---------------|
| | | 2021 | 2020 |
| Share capital | | | |
| Balance, beginning of period | | 2,601 | 2,593 |
| Issue of shares | | - | 8 |
| Balance, end of period | | 2,601 | 2,601 |
| Share premium | | | |
| Balance, beginning of period | | 130 | - |
| Issue of shares | | - | 130 |
| Balance, end of period | | 130 | 130 |
| Share-based payment reserve | | | |
| Balance, beginning of period | | 7,269 | 7,038 |
| Share-based compensation for the period | 15 | 267 | 231 |
| Balance, end of period | | 7,536 | 7,269 |
| Accumulated other comprehensive loss | | | |
| Balance, beginning of period | | (917) | (917) |
| Balance, end of period | | (917) | (917) |
| Merger reserve | | | |
| Balance, beginning of period | | 37,034 | 37,034 |
| Balance, end of period | | 37,034 | 37,034 |
| Retained earnings | | | |
| Balance, beginning of period | | 50,225 | 52,283 |
| Total comprehensive loss | | (23,955) | (2,058) |
| Balance, end of period | | 26,270 | 50,225 |
| Total equity | | 72,654 | 96,342 |

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

| US\$'000s | Notes | Year ended 31 December | |
|--|-------|------------------------|-----------------|
| | | 2021 | 2020 |
| Cash flows generated (used in)/from operating activities | | | |
| (Loss)/income before income taxes | | (17,064) | 1,428 |
| Adjustments for: | | | |
| Depletion, depreciation and amortisation | 8,20 | 32,624 | 25,192 |
| Exploration and evaluation expense | 9 | 12,327 | 4,457 |
| Impairment expense | 8 | 9,528 | - |
| Finance expense | | 641 | 598 |
| Share-based compensation charge | 15 | 267 | 231 |
| Foreign exchange loss/(gain) | | 203 | (369) |
| Tax paid by state | 13 | (5,295) | (5,107) |
| Share of profit from joint venture | | (383) | (696) |
| Operating cash flow before working capital movements | | 32,848 | 25,734 |
| Increase in trade and other receivables | 6 | (1,373) | (1,243) |
| (Decrease)/increase in trade and other payables | 11 | (1,902) | 3,041 |
| Payments for inventory | 7 | (377) | (4,459) |
| Payments for decommissioning | 12 | (205) | (611) |
| Cash generated from operating activities | | 28,991 | 22,462 |
| Income taxes paid | 13 | (324) | (1,121) |
| Net cash generated from operating activities | | 28,667 | 21,341 |
| Cash generated from discontinued operations | | - | 2,445 |
| Cash flows generated (used in)/from investing activities: | | | |
| Property, plant and equipment expenditures | 8 | (18,947) | (18,188) |
| Exploration and evaluation expenditures | 9 | (8,675) | (10,333) |
| Proceeds on disposal | | - | 3,500 |
| Dividends received | | 522 | 773 |
| Net cash used in investing activities | | (27,100) | (24,248) |
| Cash flows generated from financing activities: | | | |
| Payments of lease liabilities | 20 | (664) | (636) |
| Finance costs paid | | (197) | (269) |
| Net cash used in financing activities | | (861) | (905) |
| Increase/(decrease) in cash and cash equivalents | | 706 | (1,367) |
| Effect of foreign exchange on cash and cash equivalents | | (200) | 369 |
| Cash and cash equivalents, beginning of period | | 10,056 | 11,054 |
| Cash and cash equivalents, end of period | | 10,562 | 10,056 |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. Reporting entity

SDX Energy Plc (“SDX” or “the Company”) is a public limited company incorporated and domiciled in England and Wales. The address of the Company’s registered office is 38 Welbeck Street, London, United Kingdom, W1G 8DP. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2021 (“Consolidated Financial Statements”) comprise the Company and its wholly owned subsidiaries and include the Company’s share of joint arrangements (together the “Group”).

The Company’s shares trade on the London Stock Exchange’s Alternative Investment Market (“AIM”) in the United Kingdom under the symbol “SDX”.

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

2. Basis of preparation

a) Statement of compliance

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. SDX Energy Plc transitioned to UK-adopted International Accounting Standards in its Consolidated Financial Statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The Consolidated Financial Statements of SDX Energy Plc have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

In preparing the Consolidated Financial Statements, the directors have also elected to comply with the International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB) and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

These Consolidated Financial Statements of SDX Energy Plc were approved by the board of directors on 18 March 2022.

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 period-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 recognised in the year in which the estimates are revised and in any future years affected.

Purchase price allocations, depletion, depreciation and amortisation, 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 for any unbilled goods and services provided by contractors.

The invoicing of produced crude oil, natural gas, and natural gas liquids, for non-operated concessions, is performed by the Company’s joint venture partners. In certain concessions, the operator relies 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 on the most reliable available data.

Provisions recognised for decommissioning costs and related accretion expense, derivative fair value calculations, fair value of share-based payments expense, deferred tax provisions, and fair values assigned to any identifiable assets and liabilities in business combinations are also based on estimates. By their nature, the estimates are subject to measurement uncertainty and the impact on the Consolidated Financial Statements of future periods could be material.

The accounting estimate for the reporting period that had the highest degree of estimation uncertainty was the recoverable amount for the South Disouq asset, which was tested for impairment following the identification of impairment indicators. Please refer to note 8 for further discussion.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

2. Basis of preparation / continued

e) Going concern

Accounting standards in the UK require the directors to make an assessment of the Group's ability to continue to operate as a going concern for the foreseeable future, which covers a period of at least 12 months from the date of approval of the Consolidated Financial Statements. The board considered an extended period out to 31 December 2023 (21 months) which aligned with the board's review of the Group's forecasted cash flows.

The capital expenditure and operating costs used in these forecasted cash flows are based on the board's best estimate, including the Group's board-approved 2022 SDX corporate budget, which reflects approved operating budgets for each of its assets and an estimate of 2022 SDX corporate general and administrative expenses. The directors have made enquiries into and considered the Egyptian and Moroccan business environments and future expectations regarding commodity price risk, particularly the oil price risk, given the volatility in quoted Brent and WTI crude oil prices.

The Group has renewed its relationship with EBRD through the agreement of a new, five-year reserves-based lending facility. Conditions precedent were met in 2021 and the facility currently has US\$4.8 million of availability at 31 December 2021. This availability is likely to reduce, with the next redetermination scheduled for Q2 2022. The board has not included any drawdown of this lending facility, in neither its base case nor any sensitivities, in its going concern review.

The directors have considered the impact on the forecasted cash flows of the volatile oil price environment and potential impact on demand resulting from, among other factors, the COVID-19 virus, climate change, and counterparty credit risk. The directors have performed sensitivity analysis on these forecasted cash flows and note that the Group's underlying long-term fixed-price contracts in the Gharb Basin gas fields in Morocco and South Disouq in Egypt, as well as cash to be received from the partial sale of South Disouq, reduce the potential risk on going concern.

The following individual severe but plausible downside sensitivities were prepared using the following key assumptions:

- Underperformance of the South Disouq CGU with a decrease in overall production of 20% in 2022 and 40% in 2023;
- future Brent oil price decrease to US\$50/bbl for the whole duration of the period April 2022-December 2023;
- 25% reduction in demand from three of our customers in Morocco who have been impacted by the global semiconductor shortage in 2021 as climate change, which is contributing to increases in frequency and severity of droughts in some parts of the world, including countries where these microchips are manufactured, might exacerbate and prolong the global semiconductor shortage in 2022/2023;
- 50% reduction in demand from all customers in Morocco from October 2022-March 2023 due to potential disruption of a new COVID-19 variant, partly mitigated by a four-month deferral of 50% of capital expenditure during that period; and
- a combination sensitivity of the first three individual sensitivities described above.

In both the base and the severe but plausible downside sensitivity scenarios, the forecasts indicated that there was sufficient headroom and sufficient liquidity for the Group to continue its operations in the foreseeable future, being defined not less than 12 months from the date of approval of these Consolidated Financial Statements. The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend and rationalising its overhead base.

As a result, the directors consider that the Group has sufficient resources at its disposal to continue for the foreseeable future and have concluded that these Consolidated Financial Statements continue to be prepared under the going concern basis of accounting.

3. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. None of these are expected to have a material impact on the Group in the current or future reporting periods on foreseeable future transactions.

4. 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. This means that the Company has existing rights that give it the ability to direct the current 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 by 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, which is its 50% equity interest in Brentford Oil Tools LLC ("Brentford"). Because the parties have joint control of this entity, they 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 recognised 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 recognised as a reduction in the carrying amount of the investment.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

4. Financial risk management / continued

a) Basis of consolidation / continued

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 unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the Consolidated Financial Statements.

b) Foreign currency

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

Foreign exchange gains and losses resulting from the settlement of such transactions and the translation at exchange rates ruling at the period-end date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

c) Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value.

Following initial recognition, financial assets and liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or 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 recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits with banks, term deposits, and other short-term highly liquid investments with original maturities of three months or less.

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 recognised in the Consolidated Statement of Comprehensive Income when incurred. Financial instruments are measured at fair value and changes therein are recognised in the Consolidated Statement of Comprehensive Income.

Financial liabilities

Financial liabilities at amortised cost include trade payables. Trade payables are initially recognised 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 amortised cost using the effective interest method.

Financial assets

Trade and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost. 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 recognised 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 realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price less applicable selling expenses.

e) Leases

Agreements that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases. The right to control is conveyed if the Group has both the right to obtain substantially all of the economic benefits from, and the right to direct the use of, the identified asset throughout the period of use. An asset is identified if it is explicitly or implicitly specified by the agreement and any substitution rights held by the lessor over the asset are not considered substantive.

A lease liability is recognized on the balance sheet on the lease commencement date at the present value of future lease payments over the lease term. The discount rate applied is the rate implicit in the lease if readily determinable, otherwise an incremental borrowing rate is used. The incremental borrowing rate is determined based on factors such as the Group's cost of borrowing, lessee legal entity credit risk, currency and lease term. The lease term is the non-cancellable period of a lease together with any periods covered by an extension option that the Group is reasonably certain to exercise, or periods covered by a termination option that the Group is reasonably certain not to exercise. The future lease payments included in the present value

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

calculation are any fixed payments, payments that vary depending on an index or rate, payments due for the reasonably certain exercise of options and expected residual value guarantee payments. Repayments of principal are presented as financing cash flows and payments of interest are presented as operating cash flows.

The right-of-use asset is recognized on the balance sheet as property, plant and equipment at a value equivalent to the initial measurement of the lease liability adjusted for lease prepayments, lease incentives, initial direct costs and any restoration obligations. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment.

If the lease term at commencement of the agreement is less than 12 months, a lease liability and right-of-use asset are not recognized, and a lease expense is recognized in the income statement on a straight-line basis.

f) Property, plant and equipment, and intangible exploration and evaluation expenses

i) Recognition and measurement

Development and production costs

Property, plant and equipment are 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 capitalised when the item enhances the life or performance of an asset above its original standard. Such capitalised 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. They are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognised. The costs of the day-to-day servicing of property, plant, and equipment are recognised 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 capitalised and the carrying amount of the replaced asset is derecognised. Inspection costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other maintenance expenditures are expensed as incurred.

Exploration and evaluation expenditures

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

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

A review of any areas classified and accounted for as E&E is performed at each reporting period end to determine whether enough information exists to assess the technical feasibility and commercial viability of the area. Where appropriate, the review may indicate that an area should be further subdivided because a significant portion has already been explored, while a significant undeveloped portion with different traits (e.g. a different zone, technical approach, play type, etc.) remains that requires additional E&E activities to assess it for technical feasibility and commercial viability.

The assessment of technical feasibility and commercial viability is performed on an area level basis unless further subdivision is recommended. Depending on the extent and complexity of the prospective play, several wells may need to be drilled and potentially significant E&E costs accumulated prior to obtaining enough information to assess technical feasibility and commercial viability.

E&E costs are not amortised 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 from 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, the technical feasibility and commercial viability of extracting a mineral resource is demonstrable when proven or probable reserves are deemed to exist. However, if the Company determines that the area is not technically feasible and commercially viable, accumulated E&E costs are expensed in the period in which the 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 the 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 |
| Software licences | 1–3 years |

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

Right-of-use assets are depreciated typically on a straight-line basis over the lease term. The depreciation charge is recognised in the income statement.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

4. Significant accounting policies / continued

g) Impairment

i) Financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit losses ("ECL") model. The ECL model is applicable to financial assets classified at amortised costs and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is available without undue cost or effort at the reporting date, about past events, current conditions, and forecasts of future economic conditions.

The Group applied the simplified approach to determine impairment of its trade and other receivables. The simplified approach requires expected lifetime losses to be recognised from the initial recognition of the receivables. It involves determining the expected loss rates using a provision matrix that is based on the Group's historical default rates, which have been observed over the expected life of the receivables and adjusted forward looking estimates. It is then applied to the gross carrying amount of the receivables to arrive at the loss allowance for the period.

ii) Non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified as D&P assets or whenever facts and circumstances indicate potential impairment. Exploration and evaluation assets are tested separately for impairment. An impairment loss is recognised 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 the cost of disposal and its 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 the 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Company makes an estimate of the recoverable amount. A previously recognised 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 recognised. 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 recognised for the asset in prior years.

h) Share-based payments

The grant date fair value of options granted to employees is recognised as stock-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. Each tranche of options granted is considered a separate grant with its own vesting period and grant date fair value.

i) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers ("CODMs"). These are the executive directors who, as a group, make strategic decisions regarding the Company.

j) Provisions

A provision is recognised if, because 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 recognised for future operating losses.

k) Decommissioning obligations

The Company's activities can give rise to dismantling, decommissioning and site disturbance remediation activities. Liabilities for decommissioning costs are recognized when the Group has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as a central processing facility ("CPF"), this liability will be recognized on construction or installation. Similarly, where an obligation exists for a well, this liability is recognized when it is drilled.

Decommissioning obligations are measured at the present value of Company management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Following 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 recognised as finance costs, whereas increases/decreases occurring because of changes to the estimated future cash flows are capitalised. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision is established.

l) Revenue

Revenue is measured at the fair value of the consideration received or receivable for goods in the normal course of business.

i) Sale of goods

Revenue from the sale of hydrocarbons is recognised when the Company has passed control of the hydrocarbons to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the price can be measured reliably, and the Company has no significant continuing involvement and the costs incurred or to be incurred in the transaction can be measured reliably. This is the point at which insurance risk has passed to the buyer and the goods have been collected at the agreed location.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

The performance obligation is satisfied when the hydrocarbons are delivered to the agreed location with the appropriate required documentation and the customer accepts control of the shipment by signature. Prices are contractually agreed or based on published indices, with agreed contractual adjustments for quality, marketing fees, and other variables.

ii) Provision of production services

Revenue from the provision of production services is recognised when the Company has passed control of the produced hydrocarbons to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the production service fee can be measured reliably, and the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is the point at which insurance risk has passed to the buyer and the goods have been collected at the agreed location.

The performance obligation is satisfied when the produced hydrocarbons are delivered to the agreed location with the appropriate required documentation and the customer accepts control of the shipment by signature. Production services fees are based on published indices, with agreed contractual adjustments for quality, marketing fees, and other variables.

iii) Royalties

In the Arab Republic of Egypt, under the terms of the Company's Production Sharing Contracts ("PSCs"), the state is entitled to a percentage in kind of hydrocarbons produced. The Company accounts for this production share as a royalty, netted against gross revenues.

In the Kingdom of Morocco, under the terms of the Company's Petroleum Agreement with the Moroccan state, sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession. The Company nets these royalties against gross revenues.

m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 the 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, and therefore has a net neutral impact on reported net income. Income tax expense is recognised 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 West Gharib. The Company's subsidiary, SDX Energy Egypt (Meseda) Limited, an Egyptian registered entity, is the SDX contracting party in this production service agreement. This entity pays corporate tax for the year based on its taxable income, according to this production service agreement, 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 corporation tax is due on Moroccan profits as at 31 December 2021. The Company is subject to a social solidarity contribution which is at the discretion of the annually released Moroccan Finance Act; this contribution is accounted for under the accounting principles of IAS 12.

Deferred tax is recognised using the balance sheet method, which provides 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 recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is also not recognised 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 are intended to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

n) 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.

o) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

5. Determination of fair values

Some 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 methods set out below. 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 are:

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

Level 2 fair value measurements are based on valuation models and techniques whereby 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 is included in the consolidated balance sheet approximate to their fair value because of the short-term nature of those instruments.

The fair value of employee stock options is measured using Black-Scholes (non-market-based performance conditions) and Monte Carlo (market-based performance conditions) option pricing models. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility based on the weighted average historic volatility (adjusted for changes expected as the result of publicly available information), the weighted average expected life of the instruments based on historical experience and general option holder behaviour, expected dividends, anticipated achievement of performance conditions, and the risk-free interest rate.

6. Financial risk management

(a) 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 year is as follows:

| US\$'000s | Carrying amount | |
|--|---------------------|---------------------|
| | 31 December 2021 | 31 December 2020 |
| Cash and bank balances | 8,925 | 8,402 |
| Restricted cash ⁽¹⁾ | 1,637 | 1,654 |
| Total cash and cash equivalents | 10,562 | 10,056 |
| Trade and other receivables ⁽²⁾ | 17,800 | 17,212 |
| Total | 28,362 | 27,268 |

(1) Cash collateral of US\$1.7 million (2020: US\$1.7 million) which 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.

(2) Excludes prepayments of US\$2.1 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 (2020: US\$1.4 million)

Trade and other receivables

All the Company's operations are conducted in Egypt and Morocco. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

The Company applies the IFRS 9 simplified model for measuring the expected credit losses, which uses a lifetime expected loss allowance and is measured on the days past due criterion. Having reviewed past payments, combined with the credit profile of its existing trade debtors, to assess the potential for impairment, the Company has concluded that this is insignificant because there has been no history of default or disputes arising on invoiced amounts since inception. As a result, the credit loss percentage is assumed to be almost zero. No provision for doubtful accounts against these sales has been recorded as at 31 December 2021 (31 December 2020: no provision).

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

| US\$'000s | Carrying amount | |
|---|---------------------|---------------------|
| | 31 December 2021 | 31 December 2020 |
| Government of Egypt-controlled corporations | 7,044 | 6,205 |
| Government of Morocco-controlled corporations | 5,524 | 4,508 |
| Third-party gas customers | 3,847 | 4,289 |
| Joint venture partners | 858 | 905 |
| Other ⁽¹⁾ | 527 | 1,305 |
| Total | 17,800 | 17,212 |

(1) Excludes prepayments of US\$2.1 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 (2020: US\$1.4 million)

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

6. Financial risk management / continued

(a) Credit risk / continued

US\$7.0 million of current receivables relates to gas, condensate sales and production service fees that are due from GPC and EGAS (2020: US\$6.2 million), both of which are Government of Egypt-controlled corporations. The Company expects to collect the full amount of outstanding receivables of US\$4.0 million for South Disouq (2020: US\$4.8 million), and US\$3.0 million (2020: US\$1.4 million) for West Gharib in the normal course of operations.

ONHYM, a Government of Morocco-controlled corporation, owes US\$5.5 million (2020: US\$4.5 million), which relates to its outstanding share of well completion and connection costs, and production costs. The US\$5.5 million receivable balance includes a US\$2.2 million accrued receivable for ONHYM's share of historic well completion and connection costs. Of the US\$5.5 million, US\$3.2 million is dated older than one year and US\$1.0 million of the receivable balance relates to work performed in the period before the Company acquired the Moroccan assets. Subsequent to 31 December 2021, the Company has collected US\$0.6 million from ONHYM, all of which relates to work performed in the period before the Company acquired the Moroccan assets. To date, the Company has not suffered cash losses for validly issued and accepted invoices and management has determined that no further risk provision is required. A payable of US\$4.4 million (2020: US\$4.2 million) to ONHYM is also held on the Consolidated Balance Sheet, of which US\$0.6 million has been settled subsequent to 31 December 2021.

US\$3.8 million is owing from third-party gas customers in Morocco and has been collected within the agreed credit terms since the year-end date.

Subsequent to 31 December 2021, the Company collected US\$9.6 million of trade receivables from those outstanding at 31 December 2021; US\$1.0 million from GPC, US\$3.7 million from EGAS, US\$0.6 million from ONHYM, US\$0.5m from joint venture partners and US\$3.8million 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 31 December 2021, US\$0.9 million was receivable from the joint venture partner in the South Disouq concession (2020: US\$0.9 million), representing both billed and unbilled amounts.

The other receivables of US\$0.5 million consist of US\$0.1 million for Goods and Services Tax ("GST")/Value Added Tax ("VAT"), US\$0.3 million for deposits, and US\$0.1 million for other items.

US\$2.1 million related to prepayments, predominantly associated with the upcoming South Disouq exploration/development drilling campaign and G&A expenditure, is recorded in the Consolidated Balance Sheet.

As at 31 December 2021 and 31 December 2020, the Company's trade and other receivables, other than prepayments, are aged as follows:

| US\$'000s | Carrying amount | |
|------------------------------|------------------|------------------|
| | 31 December 2021 | 31 December 2020 |
| Current (less than 90 days) | 11,799 | 13,108 |
| Past due (more than 90 days) | 6,001 | 4,104 |
| Total | 17,800 | 17,212 |

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

(b) Foreign currency risk

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

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

| | Total per FS ⁽¹⁾ | US\$ | EGP | MAD | GBP | Other |
|--|-----------------------------|--------------|------------------------|--------------|------------|-------------|
| As at 31 December 2021 | | | US\$ equivalent | | | |
| Cash and cash equivalents | 10,562 | 4,993 | 1,034 | 2,736 | 1,783 | 16 |
| Trade and other receivables ⁽²⁾ | 17,800 | 8,152 | - | 9,428 | 178 | 42 |
| Trade and other payables | (17,157) | (11,653) | (241) | (3,639) | (1,482) | (142) |
| Current income taxes | (1,150) | - | (741) | (409) | - | - |
| Balance sheet exposure | 10,055 | 1,492 | 52 | 8,116 | 479 | (84) |

(1) FS denotes financial statements

(2) Excludes prepayments

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

6. Financial risk management / continued

(b) Foreign currency risk / continued

The average exchange rates during the 12 months ended 31 December 2021 and 2020 were:

| Average: 1 January 2021 to 31 December 2021 | Average: 1 January 2020 to 31 December 2020 | | | | | | |
|---|---|---------|---------|----------------|---------|---------|--------|
| | USD/EGP | USD/GBP | USD/MAD | USD/EGP | USD/GBP | USD/MAD | |
| Period average | 15.6284 | 0.7274 | 8.9913 | Period average | 15.7596 | 0.7869 | 9.5035 |

The exchange rates as at 31 December 2021 and 2020 were:

| Year end: 31 December 2021 | Year end: 31 December 2020 | | | | | | |
|----------------------------|----------------------------|---------|---------|------------|---------|---------|--------|
| | USD/EGP | USD/GBP | USD/MAD | USD/EGP | USD/GBP | USD/MAD | |
| Period end | 15.6400 | 0.7402 | 9.2804 | Period end | 15.6700 | 0.7327 | 8.9048 |

(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 that, as far as possible, 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, and excluding 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 needed. The Company uses authorisations for expenditures on projects to further manage capital expenditure and has a board of directors approved signing authority matrix.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| Contractual maturities of financial liabilities | Less than | 6 to 12 | Between | Between | Over | Total | Carrying |
|---|---------------|------------|------------|--------------|--------------|---------------|---------------|
| | 6 months | months | 1 and | 2 and | 5 years | contractual | amount |
| | US\$'000s | US\$'000s | 2 years | 5 years | US\$'000s | cash flows | liabilities |
| | | | US\$'000s | US\$'000s | US\$'000s | US\$'000s | US\$'000s |
| At 31 December 2021 | | | | | | | |
| Trade and other payables | 17,157 | - | - | - | - | 17,157 | 17,157 |
| Decommissioning liability | 22 | - | - | 6,368 | - | 6,390 | 5,769 |
| Lease liability | 260 | 260 | 386 | 669 | - | 1,575 | 1,395 |
| Total financial liabilities | 17,439 | 260 | 386 | 7,037 | - | 25,122 | 24,321 |
| At 31 December 2020 | | | | | | | |
| Trade and other payables | 20,120 | - | - | - | - | 20,120 | 20,120 |
| Decommissioning liability | - | - | - | 5,979 | 2,160 | 8,139 | 6,189 |
| Lease liability | 227 | 213 | 439 | 1,187 | - | 2,066 | 1,421 |
| Total financial liabilities | 20,347 | 213 | 439 | 7,166 | 2,160 | 30,325 | 27,730 |

The Group has renewed its relationship with EBRD through the agreement of a new, five-year reserves-based lending facility. Conditions precedent were met in 2021 and the facility currently has US\$4.8 million of availability.

7. Inventory

During the year ended 31 December 2021, the inventory balance decreased by US\$1.7 million from US\$8.4 million at 31 December 2020 to US\$6.7 million as at 31 December 2021 due to additions of US\$2.4 million to be used in drilling campaigns in South Disouq (US\$1.4 million) and Morocco (US\$1.0 million), which was more than offset by US\$2.5 million of inventory consumed in the Morocco workovers and the 2021 Moroccan drilling campaigns, the sale of US\$0.6 million of inventory to a third party, an inventory provision of US\$0.2 million, reflecting obsolete drilling inventory in Morocco, and US\$0.8 million of inventory consumed in the Egypt drilling campaign.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

8. Property, plant and equipment

| US\$'000s | Oil and gas properties | Other | Total |
|--|------------------------|----------------|------------------|
| Cost: | | | |
| Balance at 1 January 2020 | 158,806 | 1,579 | 160,385 |
| Additions | 3,330 | 103 | 3,433 |
| Transfer from exploration and evaluation assets | 11,108 | - | 11,108 |
| Balance at 31 December 2020 | 173,244 | 1,682 | 174,926 |
| Additions | 8,782 | 131 | 8,913 |
| Transfer from exploration and evaluation assets | 9,379 | - | 9,379 |
| Balance at 31 December 2021 | 191,405 | 1,813 | 193,218 |
| Accumulated depletion, depreciation, amortisation and impairment: | | | |
| Balance at 1 January 2020 | (91,501) | (989) | (92,490) |
| Depletion, depreciation and amortisation for the year | (24,424) | (132) | (24,556) |
| Balance at 31 December 2020 | (115,925) | (1,121) | (117,046) |
| Depletion, depreciation and amortisation for the year | (31,993) | (58) | (32,051) |
| Impairment expense | (9,528) | - | (9,528) |
| Balance at 31 December 2021 | (157,446) | (1,179) | (158,625) |
| NBV Property, plant and equipment as at 31 December 2020 | 57,319 | 561 | 57,880 |
| NBV Property, plant and equipment as at 31 December 2021 | 33,959 | 634 | 34,593 |

During the year ended 31 December 2021, additions of US\$8.9 million were predominantly related to:

- Other projects in Morocco (US\$3.1 million) including a well workover campaign, partly offset by a US\$1.4 million reduction in the decommissioning estimate for the Moroccan operations, following a review of assumptions.
- Costs incurred for the South Disouq development project (US\$5.0 million), including the completion of the SD-12X pipeline (US\$0.7 million), the drilling of IY-2X (US\$2.0 million), the workovers of SD-4X and SD-1X (US\$0.3 million), the purchase of an inlet compressor (US\$1.9 million) and other CPF projects (US\$0.1 million).
- Capital expenditure in West Gharib (US\$2.1 million) for well workovers, MSD-21 and long lead items for the remainder of the 13-well drilling campaign, and
- US\$0.1 million of other assets were also purchased.

The reclassification of US\$9.4 million from exploration and evaluation ("E&E") assets relates to the cost of three wells, OYF-3, KSR-17 and KSR-18, drilled in Morocco between Q2 and Q3 2021. The transfer includes an allocation of 3D seismic data costs (US\$0.3 million) and decommissioning assets relating to these three wells (US\$0.3 million). In addition, US\$0.1 million of pre-drilling costs and geological studies assigned to IY-2X and previously held in E&E assets, have been reclassified to PP&E during the year.

Depletion, depreciation and amortisation as disclosed in the Consolidated Statement of Comprehensive Income also includes a charge of US\$0.6 million relating to the right-of-use assets.

The difference between the US\$8.9 million addition disclosed above and the US\$18.9 million cash outflow from property, plant, and equipment expenditure in the Consolidated Statement of Cash Flows is the result of normal timing differences of recognising additions on an accruals basis and the timing of the actual payment of capital expenditure creditors. Cash outflows for transfers from E&E assets during the year to 31 December 2021 are included in cash outflow from property, plant and equipment expenditure in the Consolidated Statement of Cash Flows.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

8. Property, plant and equipment / continued

Impairment assessment

At the reporting date, management performed an impairment indicator assessment of the South Disouq Cash Generating Unit ("CGU") and concluded that following the results of the 2021 drilling campaign, and downward revision to the asset's recoverable reserves as at 31 December 2021, it should be tested for impairment.

The impairment test was carried out in accordance with the Company's accounting policy stated in note 4. The recoverable amount of the CGU has been determined based on a value-in-use ("VIU") calculation, being higher than the fair value less cost of disposal ("FVLCD"). This calculation requires the use of estimates. The present values of future cash flows were computed by applying forecast prices for gas and condensate reserves to estimated future production of proved and probable reserves. The Company also included forecast cash flows for the SD-12_East development well to be drilled in Q2 2022, using a P50 pre-drill estimate of recoverable reserves. This well is targeting the eastern compartment of the Sobhi field, which is currently producing. The present value of estimated future net revenues was computed using a discount factor of 12.5%. The discount rate used reflects the specific risks relating to the underlying CGU.

Based on this calculation for South Disouq an impairment of US\$9.5 million has been recorded to bring the recoverable amount to US\$12.5 million as at 31 December 2021.

The VIU calculation assumes Brent oil sales prices in US\$/bbl to estimate the value of revenues generated from the sale of condensate as follows:

| 2022 | 2023 | 2024 | 2025 |
|------|------|------|------|
| 86.0 | 90.0 | 87.0 | 84.0 |

It is noted that these prices are higher than those used by the Company's independent reserves auditors in their 2021 Competent Persons Report as management believes that macroeconomic circumstances at 31 December 2021 indicate that higher prices are likely to prevail over the forecast periods. If the prices assumed by the Company's independent reserves auditors were to be used, the impairment charge would increase by US\$0.6 million.

The value attributed to the SD-12_East development well in the VIU calculation was US\$3.1 million.

In 2022 the Company is drilling the SD-5X and MA-1X exploration wells, to which no value is ascribed in the VIU calculation.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

9. Exploration and evaluation assets

| US\$'000s | |
|---|---------------|
| Balance at 1 January 2020 | 18,720 |
| Additions | 21,300 |
| Transfer to property, plant and equipment | (11,108) |
| Exploration and evaluation expense | (4,457) |
| Balance at 31 December 2020 | 24,455 |
| Additions | 18,862 |
| Transfer to property, plant and equipment | (9,379) |
| Exploration and evaluation expense | (12,327) |
| Balance at 31 December 2021 | 21,611 |

During the year ended 31 December 2021, E&E additions totalled US\$18.9 million. US\$1.7 million of this amount relates to additions in Egypt primarily as the result of US\$0.6 million for the signature bonus for the two-year South Disouq exploration concession extension, US\$0.8 million drilling costs incurred for the Hanut well in South Disouq and US\$0.3 million of other exploration expenditure.

Additions in Morocco of US\$17.2 million relate primarily to the drilling of wells OYF-3, KSR-17 and KSR-18, which were all commercial discoveries and were transferred to PP&E and the drilling of KSR-19 which was suspended on 24 December 2021 and will resume in Q2 2022.

Management have assessed whether facts and circumstances indicated that the Company should test the suspended KSR-19 well for impairment. Given that the well is expected to be drilled in Q2 2022 and as at 31 December 2021 insufficient data exists which would indicate that the carrying amount of the exploration asset cannot be recovered in full, management believes that this is not the case and therefore no impairment analysis has been carried out at the year-end.

Once the well is drilled, logged, tested and placed on production, management will assess whether the carrying amount at that point exceeds its recoverable amount. As any gas produced from KSR-19 will be sold into existing customer contracts, the key uncertainty in estimating the recoverable amount arises from the geological estimate of the Estimated Ultimate Recovery ("EUR") of gas from the well, that is, the volume of gas that the well will produce over its productive life. On the current range of EUR estimates, the potential impairment could be from nil to US\$5.0 million. It should be noted that these estimates are all "pre-drill" as the well was suspended before it could reach its geological target and as such do not constitute sufficient information as at 31 December 2021 for any impairment charge to be recorded. The EUR estimates for the well will be substantially refined once the well is drilled, logged, tested, and placed on production, which is expected to be in Q2 or Q3 of 2022.

For the year ended 31 December 2021, exploration and evaluation expenses in the Consolidated Statement of Comprehensive Income stood at US\$14.1 million. The following exploration and evaluation expenses of US\$12.3 million were included in this total:

- the US\$10.3 million non-cash impairment charge ahead of the relinquishment of the Lalla Mimouna Nord concession;
- the write-off of US\$1.3 million of the Hanut-1X dry well drilled in South Disouq Q3 2021, including associated seismic costs (US\$0.2 million) and its share of the concessions signature bonus (US\$0.4 million); and
- a US\$0.7 million write-off of decommissioning assets for the Moroccan operations, following a review of assumptions.

The remaining expense of US\$1.8 million was mainly for new venture activities during the year (US\$1.6 million), predominantly consisting of internal management time and a provision for obsolete drilling inventory in Morocco (US\$0.2 million).

The difference between the US\$18.9 million disclosed above and the US\$8.7 million exploration and evaluation expenditure in the Consolidated Statement of Cash Flows is the result of normal timing differences of recognising additions on an accruals basis and the timing of the actual payment of capital expenditure creditors. Cash outflows for transfers to property, plant and equipment during the year to 31 December 2021 are included in cash outflow from property, plant and equipment expenditure in the Consolidated Statement of Cash Flows.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

10. 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 the assets it uses to provide its services and is legally responsible for settling its liabilities. In the current and comparative year, Brentford has provided services only to its shareholders, but it is not contractually obliged to do so. In the past, it has contracted with third parties and continues to seek future opportunities. 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. No impairment indicator was identified for the years ended 31 December 2021 and 31 December 2020.

The following table summarises the changes in investments for the years ended 31 December 2021 and 31 December 2020:

| US\$'000s | Carrying amount | |
|-----------------------------------|------------------|------------------|
| | 31 December 2021 | 31 December 2020 |
| Investments, beginning of period | 3,790 | 3,916 |
| Dividends received | (580) | (822) |
| Share of operating income | 383 | 696 |
| Investments, end of period | 3,593 | 3,790 |

The following table summarises the assets, liabilities, revenue, and operating income of Brentford as at 31 December 2021 and 31 December 2020:

| US\$'000s | 31 December 2021 | 31 December 2020 |
|-------------------|------------------|------------------|
| Total assets | 3,845 | 4,592 |
| Total liabilities | 267 | 458 |
| Revenue | 1,569 | 2,444 |
| Net income | 766 | 1,392 |

During the years ended 31 December 2021 and 31 December 2020, 50% of Brentford's revenue was earned from fees charged to the Company and 50% to the Company's partner in the West Gharib concession.

11. Trade and other payables

| US\$'000s | Carrying amount | |
|---------------------------------------|------------------|------------------|
| | 31 December 2021 | 31 December 2020 |
| Trade payables | 5,010 | 8,466 |
| Accruals | 6,199 | 5,001 |
| Joint venture partners | 5,043 | 5,272 |
| Other payables | 905 | 1,381 |
| Total trade and other payables | 17,157 | 20,120 |

Trade payables comprise billed services and goods. As at 31 December 2021, they consisted predominantly of royalties payable to the Moroccan government, Morocco drilling creditors and corporate G&A creditors. The US\$3.5 million decrease in trade payables as at 31 December 2021 from 31 December 2020 is mainly the result of payment of costs associated with the 2019/20 Moroccan drilling campaign.

Accruals include amounts for products and services received that have yet to be invoiced. The increase of US\$1.2 million from 31 December 2020 primarily reflects to payments made for the value of work undertaken that had not yet been billed as at 31 December 2020 for the 2019/20 Moroccan drilling campaign which were more than offset by the value of work undertaken but not yet billed as at 31 December 2021 for the 2021 Moroccan drilling campaign.

Joint venture partners account relates to current payables of US\$0.6 million for West Gharib (2020: US\$1.1 million) and US\$4.4 million owed to ONHYM for the Morocco concessions (2020: US\$4.2 million). A receivable of US\$5.5 million (2020: US\$4.5 million) from ONHYM is also held on the Consolidated Balance sheet. The joint venture partner current accounts represent the net of monthly cash calls paid less billings received.

Other payables of US\$0.9 million (2020: US\$1.4 million) mainly comprise of withholding tax payable from the Moroccan drilling campaign of US\$0.8 million (2020: US\$0.9 million).

The difference between the decrease of US\$2.9 million in trade and other payables in the Consolidated Balance Sheet as at 31 December 2021 and 31 December 2020 and the line item in the Consolidated Statement of Cash Flows pertaining to the decrease in trade and other payables of US\$1.9 million, is due to the fact that trade and other payables in the Consolidated Balance Sheet include capital expenditure items and the movement in the Consolidated Statement of Cash Flows relates only to the movement in operational expenditure and G&A creditors.

Notes to the Consolidated Financial Statements / *continued*

For the year ended 31 December 2021

12. Decommissioning liability

As at 31 December 2021, the total future undiscounted cash flows relating to the decommissioning of Moroccan assets amounted to US\$4.6 million, to be incurred up to 2025, and the liability was discounted using a nominal risk-free rate of 2%. This figure includes the decommissioning costs of three new wells drilled in the year ended 31 December 2021. A review of cost and timing assumptions of the Moroccan decommissioning operation has resulted in a reduction of US\$0.9 million of the discounted future value of cash flows, net of E&E write offs.

As at 31 December 2021, the total future undiscounted cash flows relating to the decommissioning of the South Disouq assets amounted to US\$1.8 million (SDX's share), to be incurred in 2024, and the liability was discounted using a nominal risk-free rate of 9.5%. This figure includes the decommissioning costs of 1Y-2X well drilled in the year ended 31 December 2021.

The discounted value of the cash flows above amounts to US\$5.8 million as at 31 December 2021 and is shown below:

| US\$'000s | Carrying amount | |
|---|---------------------|---------------------|
| | 31 December 2021 | 31 December 2020 |
| Decommissioning liability, beginning of period | 6,189 | 5,604 |
| Recognition of provision | 423 | 688 |
| Changes in estimate | (905) | (305) |
| Utilisation of provision | (205) | - |
| Accretion | 267 | 202 |
| Decommissioning liability, end of period | 5,769 | 6,189 |
| Of which: | | |
| Current | 22 | 327 |
| Non-current | 5,747 | 5,862 |

No decommissioning liability is recorded for the Company's West Gharib asset under the terms of the concession agreement.

During the year some well site reclamation works (US\$0.2 million) in Morocco have taken place. Within the next 12 months the Company will undertake land reclamation works in respect of the HA-1X exploration well. No other decommissioning activities are anticipated to take place over the next 12 months and as at 31 December 2021 the remainder of the liability is classified as non-current.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

13. Income tax

According to the terms of the Company's Egyptian Production Sharing Contracts ("PSCs"), the corporate tax liability of the joint venture partners is paid by the government-controlled corporations ("Corporations") that participate in these PSCs, out of the profit oil and gas 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 and gas revenues and the income tax expense of the Company.

The Company also has a Production Services Agreement ("PSA") related to West Gharib, with the legal title held by SDX Energy Egypt (Meseda) Limited ("SDX West Gharib"), an Egyptian incorporated entity. The Company is governed by the laws and tax regulations of the Arab Republic of Egypt and pays corporate taxes annually on the adjusted profit of SDX West Gharib.

The current income tax expense in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2021 mainly relates to income tax on the South Disouq PSC (US\$5.3 million), the Company's PSA in West Gharib (US\$0.8 million) and a social contribution tax in Morocco (US\$0.8 million). The current income tax liability of US\$1.2 million in the Consolidated Balance Sheet relates to the Company's PSA in West Gharib (US\$0.8 million) and an accrual for social contribution tax in Morocco (US\$0.4 million).

The Company's Moroccan operations benefit from a 10-year corporation tax holiday from first production and no such taxation is due on Moroccan profits as at 31 December 2021. During the year ended 31 December 2021, the Company has accounted for a charge of US\$0.8 million relating to a social contribution tax levied, on an annual discretionary basis by the Moroccan government, relating to the 2019-2021 fiscal periods. The levied rate, on taxable profits, varies between 1.5% and 3.5% on an annual basis. In accordance with the requirements of IAS 12 "Income taxes" this charge has been classified as a corporate income tax in the Consolidated Statement of Comprehensive Income.

The analysis of the expense for the year is as follows:

| US\$'000s | Year ended 31 December | |
|---|------------------------|--------------|
| | 2021 | 2020 |
| Current tax | | |
| Income tax charge on (loss)/income for the year | 6,509 | 5,468 |
| Adjustments in respect of prior periods | 382 | (214) |
| Total current tax | 6,891 | 5,254 |
| Deferred tax | | |
| Origination and reversal of temporary differences | - | - |
| Adjustments in respect of prior periods | - | - |
| Total deferred tax | - | - |
| Total tax expense | 6,891 | 5,254 |

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss)/income before tax is detailed below. For the current year the standard rate of corporation tax in the United Kingdom is 19%. The UK Government made a number of budget announcements on 3 March 2021. These include confirming that the rate of corporation tax will increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021.

| US\$'000s | Year ended 31 December | |
|--|------------------------|--------------|
| | 2021 | 2020 |
| (Loss)/income before income taxes | (17,064) | 1,428 |
| Standard rate of corporation tax | 19% | 19% |
| Expected income taxes | (3,242) | 271 |
| Adjustments: | | |
| Non-deductible items | 10,081 | 3,272 |
| Deferred tax not recognised | 322 | 1,457 |
| Foreign tax differential | (652) | 469 |
| Prior year adjustments | 382 | (215) |
| Total current and deferred income tax | 6,891 | 5,254 |

The components of the deferred income tax assets and liabilities at 31 December 2021 and 2020 include the following:

| US\$'000s | Year ended 31 December | |
|--------------------------------------|------------------------|--------------|
| | 2021 | 2020 |
| Deferred tax assets/(liabilities): | | |
| Investments | (14) | (14) |
| Property, plant and equipment | (448) | (448) |
| Other | 172 | 172 |
| Deferred income tax liability | (290) | (290) |

The Company has US\$73.6 million of non-capital losses available at 31 December 2021 (2020: US\$73.3 million) to shelter future taxable income, the majority of which were incurred in Canada and expire between 2026 and 2035. The Company has not recognised any deferred tax assets as at 31 December 2021 and 2020 primarily relating to its Canadian business as it has determined that its deferred tax assets are not probable to be realised from current operations.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

14. Share capital

The share capital of the Group is represented by the share capital of the parent Company, SDX Energy Plc. This Company was incorporated on 20 March 2019 to act as the holding Company of the Group.

There has been no movement in the share capital of the Group during the year ended 31 December 2021.

In the year ended 31 December 2020, the Company issued a total of 655,028 ordinary shares of £0.01 to its executive directors and certain other employees as part of the bonus awarded for 2019 performance. These shares were issued at a price of £0.1647 per share, representing the 60-day volume weighted average price of a share on 25 September 2020. US\$0.008 million was posted to the share capital during the year 2020, with the remainder recognised as share premium.

The table below shows the number and stated value of the common shares issued as at 31 December 2021 and 2020.

| | 31 December 2021 | | 31 December 2020 | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Number of shares ('000s) | Stated value (US\$'000s) | Number of shares ('000s) | Stated value (US\$'000s) |
| Balance, beginning of period | 205,378 | 2,601 | 204,723 | 2,593 |
| Issue of common shares (less share issue costs) | - | - | 655 | 8 |
| Balance, end of period | 205,378 | 2,601 | 205,378 | 2,601 |
| Weighted average shares outstanding | 205,378 | | 204,969 | |

15. Stock-based compensation

The stock-based compensation charge of US\$0.3 million recorded in the Consolidated Statement of Comprehensive income represents the IFRS 2 charge which is associated with the Company's Long-Term Incentive Plan ("LTIP").

During the year ended 31 December 2021, options of up to 757,186 ordinary shares in the Company were issued under the LTIP to new joiners in 2021. In the same period, 258,137 LTIP options vested from the award made in July and August 2018, none have yet been exercised. From these awards, 1,703,275 LTIP options did not vest.

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

In the year ended 31 December 2021, 40,000 options previously awarded lapsed. During the year to 31 December 2020, 795,000 options previously awarded lapsed. As at 31 December 2021, 320,000 options were outstanding, with a weighted average exercise price of GBP£0.45.

Long-Term Incentive Plan ("LTIP")

On 31 July 2017, the Company established a new Long-Term Incentive Plan and issued awards to its executive directors and certain other key employees. The Company recognises 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 incentivised to generate long-term value for shareholders.

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. There are clawback provisions contained in the rules of the Plan that can be applied to awards made to all participants.

As at the date of these Consolidated Financial Statements, the maximum number of shares that can vest for the CEO and CFO is 2,003,524 and 912,593 respectively.

Based on grants to 18 March 2022, the maximum potential number of common shares that can vest to the executive directors and other selected employees under the LTIP were, in aggregate, 6,793,954. All these options are outstanding as at 31 December 2021 and 18 March 2022, and 426,527 of these options have vested.

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 that 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.

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

16. Revenue, net of royalties

| US\$'000s | Year ended 31 December | |
|---|------------------------|---------------|
| | 2021 | 2020 |
| West Charib production service fee revenues | 9,219 | 7,328 |
| South Disouq gas sales revenue | 26,581 | 26,891 |
| Royalties | (8,974) | (9,115) |
| Net South Disouq gas revenue | 17,607 | 17,776 |
| Morocco gas sales revenue | 23,950 | 19,246 |
| Royalties | (431) | (730) |
| Net Morocco gas sales revenue | 23,519 | 18,516 |
| Net other products revenue | 3,515 | 2,448 |
| Total net revenue before tax | 53,860 | 46,068 |

The production service fees relate to West Charib, which is governed by an Egyptian PSA.

The Company sells gas production from the South Disouq concession to the Egyptian national gas company, EGAS, at a fixed price of US\$2.65/MMBtu (approximately US\$2.85/Mcf). The royalties are those attributable to the government, taken in accordance with the fiscal terms of the PSC. The net other products revenue relates to condensate sales from this concession.

The Moroccan gas sales revenue is derived from a Petroleum Agreement with the Moroccan state. Sales-based royalties become payable when certain inception-to-date production thresholds are reached, according to the terms of each exploitation concession. During Q3 2018, natural gas production from the Ksiri exploitation concession exceeded such a threshold, resulting in the recognition of royalties amounting to 5% of revenue from this concession from that point forward. Royalty payments are made directly to the Government of Morocco.

17. General and administrative expenses

| US\$'000s | Year ended 31 December | |
|---|------------------------|--------------|
| | 2021 | 2020 |
| Wages and employee costs | 6,180 | 6,527 |
| Consultants - inc. PR/IR | 503 | 514 |
| Legal fees | 455 | 225 |
| Audit, tax and accounting services | 815 | 767 |
| Public company fees | 634 | 576 |
| Travel | 132 | 156 |
| Office expenses | 677 | 492 |
| IT expenses | 326 | 360 |
| Service recharges | (5,471) | (5,645) |
| Ongoing general and administrative expenses | 4,251 | 3,972 |
| Transaction costs | - | 152 |
| Total net G&A | 4,251 | 4,124 |

The average monthly number of employees (including executive directors) was 64 (2020: 63). Their aggregate remuneration comprised:

| | Year ended 31 December | |
|--|------------------------|--------------|
| | 2021 | 2020 |
| Wages and salaries | 3,957 | 3,529 |
| Social security costs | 234 | 434 |
| Other pension costs | 194 | 154 |
| Remuneration incurred as G&A | 4,385 | 4,117 |
| Remuneration incurred as operational expenditure | 1,284 | 972 |
| Total aggregate remuneration | 5,669 | 5,089 |

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates:

| | Year ended 31 December | |
|--|------------------------|------------|
| | 2021 | 2020 |
| Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements | 234 | 182 |
| Audit of the financial statements of the company's subsidiaries | 69 | 71 |
| Audit-related assurance services | 41 | 15 |
| Tax compliance services | 15 | 61 |
| Other services | 17 | 32 |
| Fees payable to company's auditors and its associates for other services | 142 | 179 |

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

18. Loss per share

| US\$'000s | Year ended 31 December | |
|--|------------------------|-----------|
| | 2021 | 2020 |
| Loss and total comprehensive loss for the year | (23,955) | (2,058) |
| Weighted average amount of shares | | |
| - Basic | 205,378 | 204,969 |
| - Diluted | 205,821 | 205,033 |
| Per share amount | | |
| - Basic | \$(0.117) | \$(0.010) |
| - Diluted | \$(0.117) | \$(0.010) |

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. 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. No such dilution took place during the year ended 31 December 2021 as none of the in-the-money stock options were exercised.

19. Segmental reporting

The Company's operations are managed on a geographic basis, by country. 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.

| US\$'000s | Year ended 31 December 2021 | | | | Year ended 31 December 2020 | | | |
|--|-----------------------------|----------|----------------------------|----------|-----------------------------|----------|----------------------------|----------|
| | Egypt | Morocco | Unallocated ⁽¹⁾ | Total | Egypt | Morocco | Unallocated ⁽¹⁾ | Total |
| Revenue | 30,341 | 23,519 | - | 53,860 | 27,552 | 18,516 | - | 46,068 |
| Direct operating expense | (7,728) | (2,004) | - | (9,732) | (7,722) | (1,813) | - | (9,535) |
| Netback (pre tax) ⁽²⁾ | 22,613 | 21,515 | - | 44,128 | 19,830 | 16,703 | - | 36,533 |
| General and administrative expenses | (1,572) | (2,520) | (159) | (4,251) | (2,676) | (2,557) | 1,109 | (4,124) |
| Stock-based compensation | - | - | (267) | (267) | - | - | (231) | (231) |
| Share of profit from joint venture | 383 | - | - | 383 | 696 | - | - | 696 |
| EBITDAX ⁽²⁾ | 21,424 | 18,995 | (426) | 39,993 | 17,850 | 14,146 | 878 | 32,874 |
| Exploration and evaluation expense | (1,508) | (11,357) | (1,220) | (14,085) | (2,261) | (2,196) | (1,352) | (5,809) |
| Depletion, depreciation and amortisation | (17,089) | (15,202) | (333) | (32,624) | (14,144) | (10,476) | (572) | (25,192) |
| Impairment expense | (9,528) | - | - | (9,528) | - | - | - | - |
| Operating (loss)/income | (6,701) | (7,564) | (1,979) | (16,244) | 1,445 | 1,474 | (1,046) | 1,873 |

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

(2) Netback and EBITDAX are not recognised measures under IFRS. The Company uses these measures to help evaluate its performance. Please refer to the financial review for the definition of these alternative performance measures.

The segment assets and liabilities as at 31 December 2021 and 31 December 2020 are as follows:

| US\$'000s | 31 December 2020 | | | | 31 December 2019 | | | |
|---------------------|------------------|----------|----------------------------|----------|------------------|----------|----------------------------|----------|
| | Egypt | Morocco | Unallocated ⁽¹⁾ | Total | Egypt | Morocco | Unallocated ⁽¹⁾ | Total |
| Segment assets | 37,982 | 53,161 | 7,272 | 98,415 | 53,732 | 63,599 | 7,272 | 124,603 |
| Segment liabilities | (6,138) | (17,333) | (2,290) | (25,761) | (6,755) | (19,652) | (1,854) | (28,261) |

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

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

20. Leases

The Group has entered into various fixed-term leases, mainly for properties and vehicles. During the year ended 31 December 2021 the Group signed a new lease contract for the London office premises and terminated certain motor vehicles lease contracts in Morocco.

a) Amounts recognised in the balance sheet

The analysis of the lease liability as at 31 December 2021 is as follows:

| US\$'000s | 31 December | 31 December |
|--------------------------------|--------------|--------------|
| | 2021 | 2020 |
| Current | 439 | 461 |
| Non-current | 956 | 960 |
| Total lease liabilities | 1,395 | 1,421 |

The maturity analysis of the lease liability at 31 December 2021 is as follows:

| US\$'000s | 31 December |
|------------------------------|--------------|
| | 2021 |
| Less than one year | 439 |
| Between one and two years | 330 |
| Between two and three years | 345 |
| Between three and four years | 281 |
| Between four and five years | - |
| After five years | - |
| Total lease liability | 1,395 |

The right-of-use assets as at 31 December 2021 amounted to US\$1.4 million:

| US\$'000s | Carrying amount | |
|----------------|-----------------|--------------|
| | 31 December | 31 December |
| | 2021 | 2020 |
| Properties | 1,360 | 1,277 |
| Motor vehicles | 7 | 123 |
| Total | 1,367 | 1,400 |

b) Amounts recognised in the statement of profit or loss

The depreciation charge for the year ended 31 December 2021 amounted to US\$0.6 million and is shown below by underlying class of asset:

| US\$'000s | Depreciation charge year ended | |
|----------------|--------------------------------|-------------|
| | 31 December | 31 December |
| | 2021 | 2020 |
| Properties | 497 | 502 |
| Motor vehicles | 76 | 119 |
| Others | - | 15 |
| Total | 573 | 636 |

The lease liability at 31 December 2021 was US\$1.4 million. The corresponding interest expense for the year ended 31 December 2021 amounts to US\$0.1 million. The portion of the lease payments recognised as a reduction of the lease liabilities and as a cash outflow from financing activities for the year ended 31 December 2021 amounted to US\$0.7 million.

21. Discontinued operations

During 2020, SDX Energy Plc entered into sale and purchase agreements for its shares in the NW Gemsa concession, which was executed on 13 July 2020, and the South Ramadan concession, which was executed on 1 November 2020. The disposal of these assets has been accounted for in line with IFRS 5- Disposal of subsidiaries, businesses and non-current assets.

| US\$'000s | Year ended 31 December | |
|--|------------------------|--------------|
| | 2021 | 2020 |
| Revenue, net of royalties | - | 3,590 |
| Operating and administrative expenses | - | (2,425) |
| Income tax expense | - | (687) |
| Gain on disposal | - | 1,290 |
| Profit from discontinued operations | - | 1,768 |

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

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 one exploration well in Lalla Mimouna Sud and the acquisition of 50km² of 3D seismic data, and one exploration well, the acquisition of 100km² of 3D seismic data, and the re-processing of 150 km of 2D seismic data in Moulay Bouchta Ouest. The estimated cost of these commitments is US\$8.2 million.

In South Disouq, the ratification by the Egyptian Parliament of a two-year exploration concession extension commits the Company to pay its 55% share of a US\$1.0 million signature bonus and be committed to drill two exploration wells, with an assigned financial commitment of US\$5.0 million (gross). The Company's partner has participated in the first exploration well (HA-1X) and has the option to participate in future exploration wells within the concession. After the HA-1X drilling cost incurred, the remaining unmet commitment is US\$3.7 million (gross).

The Group operates in several countries and, accordingly, it is subject to the various tax and legal regimes in the countries in which it operates. From time to time, the Group is subject to a review of its related tax filings and in connection with such reviews, disputes can arise with the tax authorities over the interpretation or application of certain rules to the Group's business conducted within the country involved. If the Group is unable to resolve any of these matters favourably, there may be an adverse impact on the Group's financial performance, cash flows or results of operations. This may also be the case for any legal claims that the Group is required to defend. In the event that management's estimate of the future resolution of these matters changes, the Group will recognise the effects of the changes in its consolidated financial statements in the period that such changes occur.

The Group has been awarded a 10-year extension to its West Gharib Production Services Agreement in Egypt until 9 November 2031. The key terms of the extension, in which SDX has a 50% working interest, are as follows:

- A commitment, irrespective of Brent price, to drill six development wells by 31 December 2022 and one water injection well;
- If Brent reaches US\$55 for 12 consecutive months during the extension period, four further development wells will be drilled during the extension period;
- If Brent reaches US\$60 for 12 consecutive months during the extension period, two further development wells will be drilled during the extension period;
- Payment of a deferred signature bonus of US\$2.0 million (SDX share US\$1.0 million). US\$1.0 million of this deferred bonus will be paid in monthly instalments in the 12 months subsequent to when the extension was granted and the remaining US\$1.0 million will be paid in two instalments of US\$0.5 million each, on 31 December 2022 and 31 December 2023; and
- A further contingent bonus of up to US\$2.0 million (SDX share US\$1.0 million) would be payable if Brent reaches the following price points;
 - US\$75 for a period of six months - a further US\$0.5 million is payable
 - US\$80 for a period of six months - a further US\$0.5 million is payable
 - US\$85 for a period of six months - a further US\$1.0 million is payable

Notes to the Consolidated Financial Statements / continued

For the year ended 31 December 2021

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 ownership | Country of operation | Registered address |
|---|----------------------|------------------------|---|
| SDX Energy Holdings (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Inc | 100% | Canada | 1900, 520 - 3rd Avenue SW, Centennial Place, East Tower, Calgary, Alberta T2P 0R3 |
| Sea Dragon Energy (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Investments (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Morocco (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Cooperatieve U.A. | 100% | The Netherlands | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy Holding B.V. | 100% | The Netherlands | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Egypt (Nile Delta) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy (GOS) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy (Nile) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy (NW Gamsa) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy Holding Limited | 100% | British Virgin Islands | Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands |
| NPC (Shukheir Marine) Limited | 100% | Egypt | Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands |
| Madison International Oil & Gas Limited | 100% | Barbados | Erin Court, Bishop's Court Hill, St. Michael, Barbados |
| Madison Egypt Oil & Gas Limited | 100% | Egypt | Erin Court, Bishop's Court Hill, St. Michael, Barbados |
| Madison Cameroon Oil & Gas Limited | 100% | Cameroon | Erin Court, Bishop's Court Hill, St. Michael, Barbados |
| SDX Energy Egypt (Meseda) Limited | 100% | Egypt | 10, Road 261, New Maadi, Cairo, Egypt |
| SDX Energy Morocco (Jersey) Limited | 100% | Morocco | P.O. Box 771, Ground Floor, Colomberie Close, St. Helier, Jersey |
| Limerick Services SARL | 100% | Morocco | 2 Rue Ghazaoua la pinède Souissi, Rabat, Morocco |
| Brentford Oil Tools | 50% | Egypt | 7 Nazeh Khalifa st., El Korba, Misr El Gadiga, Cairo, Egypt |

24. Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended 31 December 2021 and 2020 was as follows:

| US\$'000s | Year ended 31 December | |
|--|------------------------|--------------|
| | 2021 | 2020 |
| Salaries, incentives and short term benefits | 827 | 611 |
| Directors' fees | 311 | 309 |
| Stock based compensation | 155 | 114 |
| Total compensation | 1,293 | 1,034 |

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

It was disclosed in the 2020 Annual Report that the annual bonuses of the executive officers had been deferred. In August 2021, the executive officers were awarded a combined cash bonus of US\$0.2 million (See Remuneration Committee Report on pages 50 to 53 of this annual report) which in the table above has been added as a short term benefit to the year ended 31 December 2021.

25. Subsequent events

In February 2022, the Company announced the disposal of 33% of the shares in the entity that holds its interests across its South Disouq concession for US\$5.5 million and its intention to initiate a share buyback program of up to US\$3.0 million in H2 2022.



Company Financial Statements

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Parent Company Balance Sheet

As at 31 December 2021

| £'000s | Note | As at 31 December 2021 | As at 31 December 2020 |
|--|------|------------------------------|------------------------------|
| Fixed assets | | | |
| Investments | 6 | 40,945 | 40,945 |
| | | 40,945 | 40,945 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 7 | 156 | 296 |
| Amounts owed by group undertakings | 8 | 4,299 | 2,271 |
| Cash at bank and in hand | | 45 | 22 |
| | | 4,500 | 2,589 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 9 | (689) | (438) |
| Amounts owed to group undertakings | 10 | (7,782) | (5,053) |
| | | (8,471) | (5,491) |
| Net current liabilities | 12 | (3,971) | (2,902) |
| Net assets | | 36,974 | 38,043 |
| Capital and reserves | | | |
| Called up share capital | 11 | 2,104 | 2,104 |
| Share premium account | | 101 | 101 |
| Share-based payment reserve | | 848 | 651 |
| Retained earnings | | 33,921 | 35,187 |
| Total shareholders' funds | | 36,974 | 38,043 |

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the period of £1.3 million (2020: £1.1 million).

The financial statements on pages 92 to 100 of SDX Energy Plc registered number 11894102 were approved by the board of directors on 18 March 2022 and signed on their behalf by:

Signed on behalf of the board of directors



Mark Reid
Chief Executive Officer and director

Parent Company Statement of Changes in Equity

For the year ended 31 December 2021

| £'000s | Year ended 31 December 2021 | Year ended 31 December 2020 |
|---|-----------------------------------|-----------------------------------|
| Share capital | | |
| Balance, beginning of period | 2,104 | 2,097 |
| Issuance of common shares | - | 7 |
| Balance, end of period | 2,104 | 2,104 |
| Share Premium | | |
| Balance, beginning of period | 101 | - |
| Issuance of common shares | - | 101 |
| Balance, end of period | 101 | 101 |
| Share-based payment reserve | | |
| Balance, beginning of period | 651 | 451 |
| Share-based compensation for the period | 197 | 200 |
| Balance, end of period | 848 | 651 |
| Retained earnings | | |
| Balance, beginning of period | 35,187 | 36,258 |
| Total comprehensive loss for the period | (1,266) | (1,071) |
| Balance, end of period | 33,921 | 35,187 |
| Total equity | 36,974 | 38,043 |

Notes to the Parent Company Financial Statements

For the year ended 31 December 2021

1. Accounting policies

Basis of preparation

The Parent Company financial statements of SDX Energy Plc (the Company) have been prepared in accordance with FRS 102 as they apply to the Company for the year ended 31 December 2021, and with the Companies Act 2006. The financial statements were approved by the Board and authorised for issue on 18 March 2022. SDX Energy Plc is a public limited company limited by shares incorporated in England and Wales and is listed on the Alternative Investment Market (AIM). The Company's registered address is 38 Welbeck Street, London, United Kingdom, W1G 8DP.

The Company was incorporated on 20 March 2019 with a year end of 31 December in order to act as the ultimate holding company of its subsidiaries.

The Company's financial statements are presented in UK pound sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of £1.3 million (2020: £1.1 million).

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. In these financial statements the Company has applied the exemptions available under FRS 102 in respect of the following disclosures: a cash flow statement and related notes; share based payments; related parties transactions and financial instruments.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

The policies have been consistently applied throughout the period, unless otherwise stated.

Basis of measurement

The financial statements have been prepared on a historical cost basis.

Going concern

These financial statements have been prepared on a going concern basis. Further details are given in the Group Going Concern Statement on page 71. After due consideration the directors consider that the Group has sufficient liquidity headroom to continue in operational existence for a period of at least 12 months from the date of this report and there are no material uncertainties that may cast doubt on the Company's going concern status, accordingly they are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Company Financial Statements.

2. Critical accounting judgements and key sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities is the recoverable value of investment in subsidiaries. The Company evaluates investments in subsidiaries for indicators of impairment if required. Any impairment test, where required, involves estimates and associated assumptions related to several factors. Refer to the accounting policy as described in note 3.

As at 31 December 2021, the Company considered that the market capitalisation of the Group has dropped significantly below the carrying value of its investment in its subsidiaries. Therefore, the Company assessed the recoverable value of the investment in subsidiaries based on a value in use calculation. Refer to the assessment of carrying value of investments in group undertakings in Note 6 of the Parent Company financial statements

Notes to the Parent Company Financial Statements / continued

For the year ended 31 December 2021

3. Significant accounting policies

Foreign currency

The functional currency is the currency of the primary economic environment in which that entity operates. Transactions denominated in other currencies are converted into 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 Company's financial statements are presented in UK pound sterling, as that presentation currency most reliably reflects the business performance of the entity.

Foreign currency translation

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to GBP at the period end exchange rate.

Financial instruments

Financial instruments are accounted for under Section 11 and 12 of FRS102. Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions of being "basic" financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investments

In the Company balance sheet, investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus the fair value of other consideration. Any premium is ignored.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, because of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss previously recognised for assets, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets of the CGU, on a pro-rata basis.

Notes to the Parent Company Financial Statements / continued

For the year ended 31 December 2021

3. Significant accounting policies / continued

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Cash at bank and in hand

Cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Creditors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Current and deferred corporation tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised 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 recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. 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 at 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.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Share-based payments

The grant date fair value of options granted to employees is recognised 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.

Notes to the Parent Company Financial Statements / continued

For the year ended 31 December 2021

4. Financial risk management

Overview

The Company's principal activities expose it to a variety of financial risks that arise because of its operations and financing activities such as credit risk and liquidity 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 financial statements.

The board of directors oversees management's 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 analyse 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.

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 and cash held with banks.

Cash at bank and in hand

The Company limits its exposure to credit risk by only investing in liquid securities and only with highly rated counterparties. The Company's cash at bank is currently held by banks with AA or equivalent credit ratings or better. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

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 utilises authorisations for expenditures on projects to further manage capital expenditure and has a board of directors approved signing authority matrix.

As at 31 December 2021 the Company's financial liabilities are due within one year.

Capital management

The Company's objective when managing its capital is to ensure it has sufficient capital to maintain its ongoing operations.

5. Compensation of key management personnel

The remuneration of directors and other key management personnel during the year ended 31 December 2021 was as follows:

| £'000s | Year ended | Year ended |
|--|-------------|-------------|
| | 31 December | 31 December |
| | 2021 | 2020 |
| Salaries, incentives and short term benefits | 489 | 471 |
| Directors' fees | 225 | 241 |
| Stock based compensation | 113 | 90 |
| Total compensation | 827 | 802 |

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

It was disclosed in the 2020 Annual Report that the annual bonuses of the executive officers had been deferred. In August 2021, the executive officers were awarded a combined cash bonus of £112,500 (See Remuneration Committee Report on pages 50 to 53 of this annual report) which in the table above has been added as a short term benefit relating to the year ended 31 December 2021.

The two executive officers are the only individuals employed by the Company during the year (2020: 2).

Notes to the Parent Company Financial Statements / continued

For the year ended 31 December 2021

6. Investments

| £'000s | 31 December 2021 | 31 December 2020 |
|----------------------------------|---------------------|---------------------|
| Investment in group undertakings | 40,945 | 40,945 |

Details of the Company's group undertakings and joint venture are listed in note 13.

Assessment of carrying value of investments in group undertakings

The carrying value of the Company's investment in group undertakings has been tested for impairment in accordance with FRS 102 Section 27 Impairment of Assets. The carrying value is compared to the asset's recoverable amount and has been assessed by reference to value in use.

The value in use has been calculated based upon a discounted cash flow methodology using the most recent forecasts prepared by management of the SDX Energy plc group.

These forecasts:

- are consistent with the independent technical and economic valuation of the Group's Egyptian and Moroccan assets performed by Gaffney, Cline & Associates ("GCA") which has an effective date of 31 December 2021, other than the use of a higher price deck as at 31 December 2021 due to prevailing macro-economic circumstances (See Note 8 to the Consolidated Financial Statements);
- cover the period up till the end of the subsidiaries current producing asset's economic useful life. Cash flows are assumed to grow at 2.0% which is based on inflation forecasts by recognised bodies;
- reflect estimation uncertainty using a rundown scenario for future general and administrative ("G&A") expenditure incurred. The assumptions are consistent with expected G&A expenditure in a non-growing, declining value in use scenario;
- include ongoing capital expenditure required to maintain the current exploitation concessions but excludes any growth from future exploration that the Company expects to undertake in 2022 and beyond.

The key assumptions for the value in use calculation are reserves and price estimates, future G&A expenditure incurred, discount rates and foreign exchange. Management estimates discount rates that reflect current market assessments of the time value of money and the rate of return a market participant would require. The rate used to discount the forecast cash flows reflects the individual businesses in the Group and is 12.5% post-tax. As a result of this analysis, the directors have determined that no impairment charge is required.

If management were to use the prices assumed by GCA, then no impairment charge would be required. In case the board would not be able to reduce future G&A expenditure in-line with the declining asset base, and the prices assumed by GCA were to be used, it is estimated that, by applying a 2.0% inflation forecast on a cash-flow capped G&A expenditure, this could result in an impairment of the investment in group undertakings for a value up to GBP2.8 million.

7. Debtors

| £'000s | 31 December 2021 | 31 December 2020 |
|---------------|---------------------|---------------------|
| Prepayments | 115 | 99 |
| Other debtors | 41 | 197 |
| Total | 156 | 296 |

8. Amounts owed by group companies undertakings

| £'000s | 31 December 2021 | 31 December 2020 |
|---|---------------------|---------------------|
| Sea Dragon Energy (Nile) B.V. | 1,130 | 562 |
| Sea Dragon Energy (NW Gemsa) B.V. | 67 | 67 |
| SDX Energy Egypt (Meseda) Limited | 1,250 | 696 |
| Sea Dragon Energy Holding B.V. | 38 | 38 |
| SDX Energy Morocco (Jersey) Limited | 1,774 | 883 |
| Madison Egypt Oil and Gas Limited | 12 | 8 |
| Madison International Oil and Gas Limited | 16 | 8 |
| Madison Cameroon Oil & Gas Limited | 12 | 9 |
| Total | 4,299 | 2,271 |

Current accounts owed by group undertakings are unsecured, interest free and have no fixed repayment date.

Notes to the Parent Company Financial Statements / continued

For the year ended 31 December 2021

9. Creditors

| £'000s | 31 December 2021 | 31 December 2020 |
|-----------------|---------------------|---------------------|
| Trade creditors | 491 | 200 |
| Other creditors | 198 | 238 |
| Total | 689 | 438 |

10. Amounts owed to group companies undertakings

| £'000s | 31 December 2021 | 31 December 2020 |
|--------------------------------|---------------------|---------------------|
| Sea Dragon Energy (UK) Limited | 7,477 | 4,868 |
| SDX Energy Inc. | 305 | 185 |
| Total | 7,782 | 5,053 |

Current accounts owed to group undertakings are unsecured, interest free and have no fixed repayment date.

11. Called up share capital

| £'000s | 2021 | 2020 |
|---|-------|-------|
| Authorised, issued and fully paid ordinary shares of £0.01 each | 2,104 | 2,104 |

During September 2020, the Company issued a total of 655,028 ordinary shares of £0.01 to its executive directors and certain other employees as part of the bonus awarded for 2019 performance. These shares were issued at a price of £0.1647 per share, representing the 60-day volume weighted average price of a share on 25 September 2020. £0.007 million was posted to the share capital during the year, with the remainder recognised as share premium.

12. Financial instruments and risk management

Capital risk management

The capital structure of the Company consists of debt, which includes the amounts owed to group undertakings disclosed in note 10 and equity attributable to equity holders of the Company and related parties, comprising issued capital and retained earnings as disclosed in the statement of changes in equity.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Categories of financial instruments

| £'000s | 31 December 2021 | 31 December 2020 |
|--------------------------------------|---------------------|---------------------|
| Financial assets | | |
| Cash and trade and other receivables | 201 | 318 |
| Amounts due from group undertakings | 4,299 | 2,271 |
| Total | 4,500 | 2,589 |

| £'000s | 31 December 2021 | 31 December 2020 |
|-----------------------------------|---------------------|---------------------|
| Financial liabilities | | |
| Trade and other payables | 689 | 438 |
| Amounts due to group undertakings | 7,782 | 5,053 |
| Total | 8,471 | 5,491 |
| Net current liabilities | (3,971) | (2,902) |

Amounts due from and to group undertakings are unsecured, interest free and have no fixed repayment date.

Financial risk management objectives

The Company seeks to minimise the effects of fair value interest rate risk and price risk through active management processes. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Notes to the Parent Company Financial Statements / continued

For the year ended 31 December 2021

13. Investments

As at 31 December 2021, the companies listed below are indirectly held by SDX Energy plc except SDX Energy Holdings (UK) Limited which is 100% directly owned by SDX Energy plc. The financial year end of each company is 31 December 2021.

| Name | Percentage ownership | Country of operation | Registered address |
|---|----------------------|------------------------|---|
| SDX Energy Holdings (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Inc | 100% | Canada | 1900, 520 - 3rd Avenue SW, Centennial Place, East Tower, Calgary, Alberta T2P 0R3 |
| Sea Dragon Energy (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Investments (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Morocco (UK) Limited | 100% | U.K. | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Cooperatieve U.A. | 100% | The Netherlands | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy Holding B.V. | 100% | The Netherlands | 38, Welbeck Street, London W1G 8DP, U.K. |
| SDX Energy Egypt (Nile Delta) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy (GOS) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy (Nile) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy (NW Gamsa) B.V. | 100% | Egypt | 38, Welbeck Street, London W1G 8DP, U.K. |
| Sea Dragon Energy Holding Limited | 100% | British Virgin Islands | Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands |
| NPC (Shukheir Marine) Limited | 100% | Egypt | Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands |
| Madison International Oil & Gas Limited | 100% | Barbados | Erin Court, Bishop's Court Hill, St. Michael, Barbados |
| Madison Egypt Oil & Gas Limited | 100% | Egypt | Erin Court, Bishop's Court Hill, St. Michael, Barbados |
| Madison Cameroon Oil & Gas Limited | 100% | Cameroon | Erin Court, Bishop's Court Hill, St. Michael, Barbados |
| SDX Energy Egypt (Meseda) Limited | 100% | Egypt | 10, Road 261, New Maadi, Cairo, Egypt |
| SDX Energy Morocco (Jersey) Limited | 100% | Morocco | P.O. Box 771, Ground Floor, Colomberie Close, St. Helier, Jersey |
| Limerick Services SARL | 100% | Morocco | 2 Rue Ghazaoua la pinède Souissi, Rabat, Morocco |
| Brentford Oil Tools | 50% | Egypt | 7 Nazeh Khalifa st., El Korba, Misr El Gadiga, Cairo, Egypt |

Shareholder Information

Executive Directors Mark Reid Chief Executive Officer

Nicholas Box
Chief Financial Officer

Non-Executive Directors Michael Doyle Non-Executive Chairman

Timothy Lineacre
David Mitchell
Catherine Seliger

Stock Exchange Listing
London Stock Exchange AEM
Symbol: SDX

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