

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2018 and 2017





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements of Oryx Petroleum Corporation Limited ("OPCL" or, the "Company") and its subsidiaries for the three and nine months ended September 30, 2018 and 2017 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The date of this MD&A is November 13, 2018.

Unless otherwise noted, all amounts are in thousands of U.S. dollars.

Selected terms and abbreviations used in this MD&A are listed and described in the "Glossary and Abbreviations" section.

This MD&A contains non-IFRS measures. Please refer to the "Non-IFRS Measures" section for further information.

Readers should refer to the "Forward-Looking Information" advisory on page 26. Additional information relating to OPCL, including OPCL's Annual Information Form dated March 23, 2018, is on SEDAR at [www.sedar.com](http://www.sedar.com).

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### Company Overview

The Company is a public company incorporated in Canada under the Canada Business Corporations Act and is the holding company for the Oryx Petroleum group of companies (together, the "Group" or "Oryx Petroleum").

Oryx Petroleum is an upstream oil and gas entity with operating activities focused on the Middle East and West Africa. The Group holds interests in the following License Areas:

License Area	Location	Participating Interest	Working Interest	Role
Hawler	Iraq – Kurdistan Region	65%	65%	Operator
AGC Central	Senegal and Guinea Bissau	85%	80% <sup>(1)</sup>	Operator
Haute Mer A <sup>(2)</sup>	Congo (Brazzaville)	20%	20%	Non-operator
Haute Mer B <sup>(3)</sup>	Congo (Brazzaville)	30%	30%	Non-operator

Notes:

- (1) Assuming the AGC exercises back-in rights.
- (2) During 2017, the Group determined to cease further investments in the Haute Mer A License Area. It is anticipated that the Group's interest in the Haute Mer A License Area will be assigned to the other partners in the License Area for Nil consideration.
- (3) On April 23, 2018, the Group entered into an agreement providing for the transfer of the Group's 30% participating interest in the Haute Mer B license to a subsidiary of Total S.A. The transaction is expected to close during the fourth quarter of 2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Operational Highlights

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- Average gross (100%) oil production of 10,000 bbl/d in October 2018 and 7,200 bbl/d for Q3 2018 versus 3,600 bbl/d for Q3 2017 and 4,400 bbl/d for Q2 2018.
- Average gross (working interest) oil production of 4,700 bbl/d for Q3 2018 versus 2,300 bbl/d for Q3 2017 and 2,900 bbl/d for Q2 2018;
  - 104% increase in Q3 2018 versus Q3 2017 and 62% increase versus Q2 2018.
- The Banan-4 appraisal well targeting the Tertiary reservoir was spudded in August 2018, drilled to a measured depth of 810 metres utilising a horizontal well design, completed in open hole, and placed on extended well test in late September;
  - Average gross (100%) oil production of approximately 2,600 bbl/d for the month of October 2018;
  - Gravity of stock tank oil has been measured at 27 degrees API with sulphur measured at 4%.
- The Zey Gawra-4 appraisal well targeting the Cretaceous reservoir was spudded in September 2018, drilled to a measured depth of 2,271 metres utilising a horizontal well design. In recent days the well has been completed and placed on extended well test.
- Infrastructure work needed to enable drilling of additional wells at the Banan and Zey Gawra fields and to enable transport from the Banan field to the Hawler processing facilities was completed during Q3 2018.
- A workover of the Demir Dagh-8 well targeting the Cretaceous reservoir is planned during December 2018.
- Further interpretation of 3D seismic data covering the AGC Central License Area and prospect ranking and well site selection is in advanced stages with preparation for drilling to follow.

### Financial Highlights and Outlook

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#### Liquidity outlook

The Group expects cash on hand as of September 30, 2018, cash receipts from export sales exclusively through the Kurdistan Region-Turkey Export Pipeline, expected net proceeds from the sale of its interest in the Haute Mer B License Area, and, if needed, drawdowns on the recently secured \$7.5 million Interim Credit Facility to fund its forecasted cash expenditures and to meet its obligations through the end of 2019.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Financial performance

The following table contains financial performance highlights for the three and nine months ended September 30, 2018 and September 30, 2017.

(\$ thousands unless otherwise stated)	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	29,355	9,844	61,186	24,860
Cash generated by / (used in) operating activities	4,919	(4,624)	746	(3,594)
Operating Funds Flow <sup>(1)</sup>	8,400	(645)	14,128	(5,353)
Operating Funds Flow <sup>(1)</sup> per basic and diluted share (\$/share)	0.02	(0.00)	0.03	(0.02)
Loss for the period	(5,216)	(5,860)	(13,012)	(10,922)
Loss per basic and diluted share (\$/share)	(0.01)	(0.01)	(0.03)	(0.03)
Average sales price (\$/bbl)	61.33	41.07	60.16	40.38
Field production costs <sup>(2)</sup> (\$/bbl)	9.89	11.92	10.30	16.07
Operating expense (\$/bbl)	12.93	15.59	13.47	21.02
Field Netback <sup>(1)</sup> (\$/bbl)	20.07	8.14	19.08	3.65
Oryx Petroleum Netback <sup>(1)</sup> (\$/bbl)	23.82	9.02	22.57	3.17
Capital additions	12,454	3,823	27,391	(1,274) <sup>(3)</sup>

**Notes:**

- (1) Operating Funds Flow, Field Netback, and Oryx Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.
- (2) Field production costs represent Oryx Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Oryx Petroleum. See the "Operating expense" section of this MD&A.
- (3) Includes non-cash credits of \$7.3 million relating to revisions in previously estimated costs recorded in the Hawler and OML 141 License Areas and a \$2.4 million non-cash credit relating to revision to assumptions used to calculate decommissioning obligations.

### Revenue and cash receipts

Revenue of \$29.4 million was recorded for the three months ended September 30, 2018. Included in revenue is \$26.4 million (\$61.33/bbl) realised on the sale of 430,900 bbl (WI) of crude oil and \$2.9 million related to the recovery of costs carried on behalf of partners. Revenue for the third quarter of 2018 increased by \$19.5 million compared to the same period in 2017. The increase is attributable to a 49% increase in realised sales price combined with a 100% increase in sales volumes.

Revenue of \$61.2 million was recorded for the nine months ended September 30, 2018. Included in revenue is \$55.1 million (\$60.16/bbl) realised on the sale of 915,600 bbl (WI) of crude oil and \$6.1 million related to the recovery of costs carried on behalf of partners. Revenue for the nine months ended September 30, 2018 increased by \$36.3 million compared to the same period in 2017. The increase is attributable to a 49% increase in realised sales price combined with a 65% increase in sales volumes.

All sales during the nine months ended September 30, 2018 were made via the KRG's international export pipeline.

The Group has received payment in full for all crude oil delivered and sold through the KRG's international export pipeline up to and including August 31, 2018. At the date of the MD&A, the Group's entitlement share of amounts receivable from the KRG for crude oil delivered to the pipeline during September and October 2018 totals \$14.0 million.

### Field production costs and netbacks

During the three months ended September 30, 2018, the Group achieved its lowest quarterly Field production costs per barrel and highest absolute and per barrel Field and Oryx Petroleum Netbacks on record.

Field production costs during the third quarter of 2018 amounted to \$4.3 million (\$9.89/bbl) in comparison to \$2.6 million (\$11.92/bbl) during the third quarter of 2017, representing a 17% decrease on a per barrel basis. The per barrel decrease was primarily due to increases in sales volumes.

Field Netback of \$20.07/bbl for the three months ended September 30, 2018 has improved from \$8.14/bbl for the third quarter of 2017 and \$19.45/bbl for the second quarter of 2018. Field Netback per barrel increased by 147% in comparison to the third quarter of 2017 and by 3% in comparison to the second quarter of 2018. The primary drivers for improved Field Netbacks have been higher oil prices combined with higher sales volumes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Operating Funds Flow

Operating Funds Flow for the third quarter of 2018 was \$8.4 million compared to negative \$0.6 million for the three months ended September 30, 2017. The Group's highest quarterly Operating Funds Flow on record is primarily due to higher Oryx Petroleum Netbacks which have contributed cash in excess of cash general and administrative expenditures.

For the nine months ended September 30, 2018, Operating Funds Flow was \$14.1 million compared to negative \$5.4 million during the same period in 2017. The significant improvement in Operating Funds Flow is primarily due to higher Oryx Petroleum Netbacks which have contributed cash in excess of cash general and administrative expenditures.

Cash generated by operating activities during the quarter ended September 30, 2018 amounted to \$4.9 million reflecting Operating Funds Flow of \$8.4 million offset by a \$3.5 million increase in non-cash working capital which was primarily related to an increase in oil sales receivables.

### Loss

Loss for the three months ended September 30, 2018 was \$5.2 million compared to a \$5.9 million loss during the third quarter of 2017. The reduction in loss for the three months ended September 30, 2018 in comparison to the same period in 2017 is primarily attributable to an increase in net revenue of \$10.9 million. This positive factor was partially offset by i) a \$4.8 million increase in finance expense primarily due to the updated fair value assessment of the contingent consideration liability, ii) a \$2.2 million increase in operating expense that is primarily attributable to increased costs due to the expanded operations at the Zeg Gawra and Banan fields and iii) a \$2.9 million increase in the depletion charge during the third quarter of 2018 resulting from an increased depletion cost per barrel and higher production during 2018.

Loss for the nine months ended September 30, 2018 was \$13.0 million compared to a \$10.9 million loss during the same period in 2017. The change in loss for the nine months ended September 30, 2018 in comparison to the same period in 2017 is primarily attributable to i) a \$7.6 million gain on settlement of the finance lease obligation related to Hawler production facilities in 2017, ii) a \$0.6 million gain related to the change in fair value of contingent consideration during the nine months ending September 30, 2017 versus a \$6.7 million charge during the nine months ended September 30, 2018, iii) a \$1.1 million impairment reversal recorded in the nine months ended September 30, 2017, iv) a \$5.5 million increase in the depletion charge during 2018 resulting from an increased depletion rate per barrel and higher production during 2018, and v) a \$1.4 million provision on trade and other receivables recorded in 2018. These negative factors were largely offset by an increase in net revenue of \$20.3 million.

### Capital additions

During the third quarter of 2018, the Group recorded net capital additions of \$12.5 million. The Group invested \$6.9 million primarily on drilling activities in the Zey Gawra and Banan fields in the Hawler License Area, and \$5.3 million to interpret and analyse 3D seismic data and to prepare for drilling activities in the AGC Central License Area.

During the nine months ended September 30, 2018, the Group recorded net capital additions of \$27.4 million. The Group invested \$20.8 million primarily on drilling activities in the Zey Gawra and Banan fields in the Hawler License Area, and \$6.4 million to interpret and analyse 3D seismic data and to prepare for drilling activities in the AGC Central License Area.

### Financial position

The following table contains highlights of the Group's financial position as at the dates indicated below.

(\$ thousands)	September 30, 2018	December 31, 2017
Total cash and cash equivalents	17,048	38,572
Working Capital	(87,648)	27,133
Total assets	755,237	744,798
Borrowings	78,548	75,854
Total long-term liabilities	59,711	147,837

The cash and cash equivalents balance of \$38.6 million as at December 31, 2017 decreased to \$17.0 million at September 30, 2018. This decrease is due to \$18.9 million in cash used in investing activities and \$1.9 million in cash used in operating activities.

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Working capital decreased to negative \$87.6 million at September 30, 2018 from \$27.1 million at December 31, 2017. The decrease was due to the reclassification of the \$78.5 million borrowings balance to current liabilities during the third quarter of 2018, a \$21.5 million decrease in cash and cash equivalents, a \$28.5 million increase in trade and other payables primarily comprised of a \$23.4 increase in contingent consideration payable, and a \$2.2 million decrease in inventories, partially offset by a \$10.3 million increase in the trade and other receivables balance, a \$5.3 million increase in assets held for disposal, and a \$0.4 million increase in other current assets.

The undiscounted balance owed under the Loan Facility as at September 30, 2018 was \$79.2 million, including \$3.1 million in accrued interest which was settled through the issuance of Common Shares on November 12, 2018.

The undiscounted balance of principal and accrued interest potentially owed under the contingent consideration obligation to the vendor of the Hawler License Area as at September 30, 2018 was \$86.3 million.

### Capital expenditures - 2018 forecast and 2019 Budget

#### 2018 – Fourth quarter

The Group's re-forecasted capital expenditures for the fourth quarter of 2018 are expected to amount to \$11 million and include costs related to the recently completed Zey Gawra-4 well and the workover of the Demir-Dagh-8 well.

Location	License/Field/Activity	Q4 2018 Forecast \$ millions
<b>Kurdistan Region</b>	Hawler	
	Drilling Zey Gawra	4
	Drilling Banan	2
	Drilling Demir Dagh	1
	Facilities	1
	Other	2
	<b>Total Hawler</b>	<b>10</b>
<b>West Africa</b>	AGC Central	1
<b>Capex Total</b>		<b>11</b>

#### Kurdistan Region of Iraq -- Hawler License Area

**Drilling**--consists of costs related to the recently completed Zey Gawra-4 and Banan-4 wells and the planned workover of the Demir Dagh-8 well. The previously planned sidetrack of the Demir Dagh-5 well and one well targeting the Banan Tertiary reservoir have been deferred into 2019.

**Facilities**--comprised of modifications to the Demir Dagh truck loading facilities needed to accommodate increased production, and minor infrastructure works.

**Other**—includes annual license maintenance costs.

#### AGC Central License Area

Consists of continued interpretation of seismic data, preparation for drilling and studies.

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### 2019 Budgeted Capital Expenditures

The Group's budgeted capital expenditures for 2019 amount to \$52 million. The following table summarises the Group's 2019 budgeted capital expenditure program:

Location	License/Field	Drilling	Facilities	Seismic & Studies and Other <sup>(2)</sup>	Total 2019 Budget
		\$ millions	\$ millions	\$ millions	\$ millions
<b>Kurdistan Region</b>	Hawler				
	Demir Dagh	3	1	-	4
	Zey Gawra	6	-	-	6
	Banan	16	11	-	26
	Ain Al Safra	2	-	-	2
	Other <sup>(2)</sup>	-	-	2	2
	<b>Total Hawler</b>	<b>27</b>	<b>12</b>	<b>2</b>	<b>41</b>
<b>W. Africa &amp; Corp</b>	AGC Central	6	-	5	11
	<b>Capex Total</b>	<b>33</b>	<b>12</b>	<b>7</b>	<b>52</b>

Note:

- (1) Totals in rows and columns may not add-up due to rounding
- (2) Other is comprised primarily of license maintenance costs

#### Kurdistan Region of Iraq -- Hawler License Area

**Demir Dagh drilling** – consists of costs related to a short radius sidetrack of the previously drilled Demir Dagh-5 well. Sidetrack operations are expected to be completed in the first half of 2018.

**Zey Gawra drilling** – in the first half of the year consists of the sidetrack of the previously drilled Zey Gawra-2 well targeting the Cretaceous reservoir. In the second half of the year a sidetrack of the previously drilled Zab-1 well targeting the Tertiary reservoir is planned.

**Banan drilling** – in the first half of 2019 consists of the drilling of two new wells targeting the Tertiary reservoir, one of which will be used as a surveillance well and not a producing well. Two wells targeting the Banan Cretaceous reservoir are planned for the second half of 2019.

**Ain Al Safra drilling** – consists of costs related to the testing of the Ain Al Safra-2 well targeting the Jurassic and Triassic reservoirs. The Ain Al Safra-2 well was suspended in 2014 prior to testing due to security developments. The testing of the Ain Al Safra-2 well is expected to be completed in the first half of the year.

**Demir Dagh facilities** – comprised of minor infrastructure works.

**Banan facilities expenditures** – comprised of new pads and infrastructure needed to accommodate drilling plans and additional production as well as the planned construction of a pipeline between the Banan field and the Hawler processing facilities located at the Demir Dagh field. The construction of the pipeline is expected in the second half of 2019 and is expected to be in service in early 2020.

#### AGC Central License Area

Activity consists of preparation costs for drilling, studies as well as license maintenance costs.

### **Business Environment**

On September 25, 2017, the KRG held an independence referendum. In the weeks following the referendum, the Government of Iraq initiated military movements to assert and establish control over geographic areas under dispute. Resolution and impact of the resulting political tensions and disputes remains uncertain. Following these events, efforts were undertaken to resolve political disputes including control over geographic territory, border and transportation infrastructure including international airports, and to determine mechanisms to administer budget allocations, and internal and international trade including exports and sales of crude oil among other matters. During the first quarter of 2018, international flights into the Erbil International Airport resumed, having been suspended for some months. While partial restoration of political stability through the conduct of regional and federal elections have followed the above events and operating conditions are now such that the Group has been able to continue its activities in the Kurdistan Region of Iraq, the eventual impact of the underlying and unresolved political disputes on the Group's operations may be significant and remains uncertain.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Uncertainty related to global, social, political, and economic conditions and the resulting changes in global oil supply chains and infrastructure investment contribute to volatility in the price of crude oil. The related uncertainty regarding returns on investments in upstream oil and gas exploration and development has impacted the availability and cost of capital resources. Furthermore, future oil prices, which directly impact the Group's expected cash inflows, are difficult to forecast reliably. The Group's ability to fund its ongoing operations and its forecasted capital investments is consequently subject to significant uncertainty. See the "Liquidity and Capital Resources" section of this MD&A for further discussion.

The ongoing political instability in Iraq and other risk factors which are disclosed in OPCL's Annual Information Form could have an adverse effect on Oryx Petroleum's performance.

On March 14, 2016, the Group initiated crude oil deliveries to international markets through the KRG's international export pipeline. Although management does not expect restrictions on its ability to access pipeline capacity, Oryx Petroleum is not aware of official allocations of export pipeline capacity and is uncertain of the extent to which its future production will continue to be sold through this export pipeline. The political tensions which followed the KRG independence referendum contribute to an increase in the risk that the KRG's arrangements currently in place to sell oil produced from the Hawler License Area may not continue to be in effect. Furthermore, there remains an ongoing risk that any renewed worsening of the regional security situation could have a material adverse effect on the operating and financial performance of the Group.

The market on which oil produced from the Hawler License Area is sold affects the price realised and, consequently, Oryx Petroleum's cash flows. Complexities in local, regional, and international market access dynamics may impact the Group's realised oil sales prices and its future ability to sell its produced oil.

The Group's future revenues and cash flows from operating activities are dependent on the Group's ability to produce and deliver crude oil. Production rates are subject to fluctuation over time and are difficult to predict.

The timing and execution of the Group's capital expenditure program may also be affected by the availability of services from third party oil field contractors and the Group's ability to obtain, sustain or renew necessary government licenses and permits on a timely basis to conduct exploration and development activities.

With the exception of the items discussed above together with risks disclosed in the Group's Annual Information Form dated March 23, 2018, management has not identified trends or events that are expected to have a material adverse effect on the financial performance of Oryx Petroleum.

### Operations Review

#### Kurdistan Region of Iraq

The following table summarises production and sales data for the three months ended September 30, 2018, June 30, 2018, and September 30, 2017 and for the nine months ended September 30, 2018 and September 30, 2017:

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Gross Production (bbl)	661,900	402,600	330,900	1,406,200	854,400
Gross Production per day (bbl/d)	7,200	4,400	3,600	5,200	3,100
WI Production (bbl)	430,200	261,700	215,100	914,100	555,400
WI Production per day (bbl/d)	4,700	2,900	2,300	3,300	2,000
WI sales (bbl)	430,900	262,000	215,800	915,600	554,200
WI sales per day (bbl/d)	4,700	2,900	2,300	3,400	2,000

#### Production and sales

Gross (100%) oil production for the three months ended September 30, 2018 was 661,900 bbl representing an average rate of 7,200 bbl/d. The Group's Working Interest share of oil production during this period was 430,200 bbl representing an average rate of 4,700 bbl/d.

The increase in production and sales volumes during the third quarter of 2018 is attributable to production from i) a new Zey Gawra field well, ii) initial production from the Cretaceous reservoir in the Banan field, and iii) a Tertiary reservoir discovery well in the Banan field.



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During October 2018, Hawler License Area gross (100%) production amounted to 10,000 bbl/d.

Gross (100%) oil production for the nine months ended September 30, 2018 was 1,406,200 bbl representing an average rate of 5,200 bbl/d. The Group's Working Interest share of oil production during this period was 914,100 bbl representing an average rate of 3,300 bbl/d.

The Group recognised revenue on the sale of 430,900 bbl (Working Interest) and 915,600 bbl (Working Interest) of crude oil during the three and nine months ended September 30, 2018, respectively.

### Crude oil sale prices

Commencing in March 2016, the Group began selling crude oil to the KRG's Ministry of Natural Resources via deliveries at the Hawler License Area into the KRG's international export pipeline. The realised sales prices on export sales through this pipeline made subsequent to February 1, 2018 are referenced to monthly average Brent crude oil prices, discounted by approximately \$8/bbl for pipeline system tariffs and fees, and adjusted for differences in API gravity and sulphur from standard Brent specifications. For sales made prior to February 1, 2018, the realised sales prices on export sales through this pipeline were referenced to monthly average Brent crude oil prices, discounted by \$12/bbl for crude oil quality and transport, and adjusted for actual API gravity and sulphur content outside of agreed quality specification ranges.

The following table indicates average Brent crude oil prices and the Group's realised crude oil sales prices for each quarter ended on the dates indicated below:

	2018			2017				2016
	Sept 30	June 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31
Brent average price (\$/bbl)	75.16	74.39	66.82	61.26	51.72	50.28	54.13	49.96
Realised sales price (\$/bbl)	61.33	61.51	56.31	50.04	41.07	37.93	41.92	38.75

### Netbacks

The following table summarises the Field Netback and Oryx Petroleum Netback for the three months ended September 30, 2018 and September 30, 2017:

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	(\$ thousands)	(\$/bbl)	(\$ thousands)	(\$/bbl)
Oil sales	26,427	61.33	8,862	41.07
Royalties	(12,918)	(29.98)	(4,332)	(20.08)
Field production costs <sup>(1)</sup>	(4,260)	(9.89)	(2,572)	(11.92)
Current taxes	(600)	(1.39)	(201)	(0.93)
<b>Field Netback<sup>(2)</sup></b>	<b>8,649</b>	<b>20.07</b>	<b>1,757</b>	<b>8.14</b>
Recovery of Carried Costs	2,928	6.80	982	4.55
Partner share of production costs	(1,311)	(3.04)	(792)	(3.67)
<b>Oryx Petroleum Netback<sup>(2)</sup></b>	<b>10,266</b>	<b>23.83</b>	<b>1,947</b>	<b>9.02</b>

Notes:

- (1) Field production costs represent Oryx Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Oryx Petroleum.
- (2) Field Netback and Oryx Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.

Field Netback for the three months ended September 30, 2018 of \$8.6 million incorporates field production costs of \$4.3 million. On a per barrel basis, Field Netback has increased to \$20.07/bbl for the three months ended September 30, 2018 from \$8.14/bbl for the three months ended September 30, 2017. This variance is primarily attributable to an increase in the realised sales prices and to a decrease in per barrel field production costs.

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The following table summarises the Field Netback and Oryx Petroleum Netback for the nine months ended September 30, 2018 and September 30, 2017:

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	(\$ thousands)	(\$/bbl)	(\$ thousands)	(\$/bbl)
Oil sales	55,084	60.16	22,381	40.38
Royalties	(26,925)	(29.41)	(10,940)	(19.74)
Field production costs <sup>(1)</sup>	(9,430)	(10.30)	(8,904)	(16.07)
Current taxes	(1,250)	(1.37)	(508)	(0.92)
<b>Field Netback<sup>(2)</sup></b>	<b>17,479</b>	<b>19.08</b>	<b>2,029</b>	<b>3.65</b>
Recovery of Carried Costs	6,102	6.66	2,479	4.47
Partner share of production costs	(2,901)	(3.17)	(2,742)	(4.95)
<b>Oryx Petroleum Netback<sup>(2)</sup></b>	<b>20,680</b>	<b>22.57</b>	<b>1,766</b>	<b>3.17</b>

Notes:

- (1) Field production costs represent Oryx Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Oryx Petroleum.
- (2) Field Netback and Oryx Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.

Field Netback for the nine months ended September 30, 2017 of \$17.5 million incorporates field production costs of \$9.4 million. On a per barrel basis, Field Netback has improved to \$19.08/bbl for the nine months ended September 30, 2018 from a Field Netback of \$3.65/bbl for the nine months ended September 30, 2017. This variance is primarily attributable to an increase in the realised sales prices and to a decrease in per barrel field production costs.

### Hawler license operation, appraisal and early production

#### Zey Gawra field

The Zey Gawra-4 appraisal well targeting the Cretaceous reservoir was spudded in September 2018, drilled to a measured depth of 2,271 metres utilising a horizontal well design. In recent days the well has been completed and placed on extended well test.

Crude oil from the Zey Gawra field is being processed through temporary facilities at the Zey Gawra field and is being delivered by truck to the Group's offloading and storage facilities and the Kurdistan Export Pipeline injection point located at the Demir Dagh field.

#### Banan field

During the second and third quarters of 2018, the Group installed the temporary facilities required to produce and temporarily process oil from its Banan field. Temporary offloading facilities were also constructed allowing crude oil produced from the Banan field to be delivered by truck to storage facilities and the Kurdistan Export Pipeline injection point located at the Demir Dagh field.

The Banan-2 well in the Cretaceous reservoir was successfully completed and the well was placed on extended test in late July 2018.

The Banan-4 appraisal well targeting the Tertiary reservoir was spudded in August 2018, drilled to a measured depth of 810 metres utilizing a horizontal well design, completed in open hole, and placed on extended well test in late September.

#### Demir Dagh

Activity at the Demir Dagh field continued to include offloading, storage, and processing activities during the third quarter of 2018. All Hawler License Area crude oil continues to be injected for sale into Kurdistan Export Pipeline during the third quarter of 2018.

#### Ain Al Safra

The Group is preparing for the resumption of operations required to complete a testing program on the Ain Al Safra-2 well which was suspended during August of 2014 prior to testing due to security developments.

### West Africa

The Group has licensed approximately 2,000 km<sup>2</sup> of 3D seismic data acquired in December 2016 and January 2017 over the AGC Central License Area. The data has been processed and interpretation is positive. Finalisation of prospect identification and mapping is in progress with preparations for drilling to follow.

Other than the above, activities in West Africa during the nine months ended September 30, 2018 were limited to license maintenance and data analysis.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Divestment of Interest in the Haute Mer B License Area

On April 23, 2018, the Group entered into an agreement providing for the sale of the Group's 30% participating interest in the Haute Mer B License Area to a subsidiary of Total S.A. (the "Buyer") (the "Sale Agreement"). Upon closing, the Group's interest in the Haute Mer B License Area will be transferred for cash consideration of \$8 million, payable at closing. The sale will be deemed to be made with effect from January 1, 2018. As a result, the Buyer has agreed to reimburse the Group for costs incurred by it in relation to the Haute Mer B License Area between January 1, 2018 and the date of the Sale Agreement and to carry the Group's share of costs from the date of the Sale Agreement to the closing of the transaction. This is expected to result in a further payment to the Group, at closing, of \$5.3 million. Subject to completion of closing conditions, the transaction is expected to close during the fourth quarter of 2018. The license interest is presented as an asset held for disposal as at September 30, 2018.

### Capital Additions

The following table summarises the capital additions incurred by activity during the three and nine months ended September 30, 2018 and September 30, 2017:

(\$ thousands)	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Middle East</b>				
Drilling	7,410	3,164	20,195	1,278
Facilities	(622) <sup>(1)</sup>	349	228	(40)
Studies, license, and support	139	(86)	362	(3,213)
<b>Sub-Total Middle East</b>	<b>6,927</b>	<b>3,427</b>	<b>20,785</b>	<b>(1,975)<sup>(2)</sup></b>
<b>West Africa</b>				
Exploration drilling	75	27	156	(1,852)
Facilities	73	-	129	-
Seismic	4,882	131	5,421	1,149
Studies, license, and support	258	237	661	1,398
<b>Sub-Total West Africa</b>	<b>5,288</b>	<b>395</b>	<b>6,367</b>	<b>695<sup>(3)</sup></b>
<b>Corporate</b>				
	<b>239</b>	<b>1</b>	<b>239</b>	<b>6</b>
<b>Total capital additions</b>	<b>12,454</b>	<b>3,823</b>	<b>27,391</b>	<b>(1,274)</b>

Notes:

- (1) Facilities capital additions for the three months ended September 30, 2018 include a \$0.7 million credit relating to the disposal of equipment.
- (2) Included in capital additions for the Middle East for the nine months ended September 30, 2017 are non-cash credits of \$6.0 million related to revisions to estimates of costs incurred in prior period and a non-cash credits of \$2.4 million primarily related to the change in discount and inflation rates used to calculate the decommissioning obligation.
- (3) West African capital additions for the nine months ended September 30, 2017 includes a non-cash credit of \$1.9 million due to revisions to estimates of costs incurred in prior periods and a non-cash addition of \$0.7 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table summarises the capital additions incurred by License Area during the three and nine months ended September 30, 2018 compared to the same periods in 2017:

(\$ thousands)	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Middle East</b>				
Hawler	6,927	3,427	20,785	(1,974)
<b>Sub-Total Middle East</b>	<b>6,927</b>	<b>3,427<sup>(1)</sup></b>	<b>20,785</b>	<b>(1,974)<sup>(1)</sup></b>
<b>West Africa</b>				
AGC Shallow	-	86	-	241
AGC Central	5,288	309	6,367	1,585
OML 141	-	-	-	(1,233)
Haute Mer B	-	-	-	101
<b>Sub-Total West Africa</b>	<b>5,288</b>	<b>395</b>	<b>6,367</b>	<b>694<sup>(2)</sup></b>
<b>Corporate</b>	<b>239</b>	<b>1</b>	<b>239</b>	<b>6</b>
<b>Total capital additions</b>	<b>12,454</b>	<b>3,823</b>	<b>27,391</b>	<b>(1,274)</b>

Notes:

- (1) Included in capital additions for the Middle East for the nine months ended September 30, 2017 are non-cash credits of \$6.0 million related to revisions to estimates of costs incurred in prior periods and a non-cash credits of \$2.4 million primarily related to the change in discount and inflation rates used to calculate the decommissioning obligation.
- (2) West African capital additions for the nine months ended September 30, 2017 includes a non-cash credit of \$1.9 million due to revisions to estimates of costs incurred in prior periods and a non-cash addition of \$0.7 million.

### Middle East

During the three months ended September 30, 2018, the Group invested \$6.9 million in the Hawler License Area. The Group invested \$7.4 million related to drilling the Banan-3, Banan-4, and Zey Gawra-3 wells and to prepare for the drilling of the Zey Gawra-4 well, and \$0.2 million on technical support.

The Group recorded capital additions of \$20.8 million during the nine months ended September 30, 2018. These additions are primarily composed of \$20.2 million to drill the above mentioned wells in addition to completion of the Banan-2 well. Facilities expenditure of \$0.2 million and technical support costs of \$0.4 million were also incurred during the period.

### West Africa

Capital additions of \$5.3 million and \$6.4 million for three and nine months ended September 30, 2018, respectively, were primarily comprised of the final \$4.6 million investment related to the licensing of 3D seismic data over the AGC Central License Area. Remaining costs related to seismic interpretation and directly attributable technical support costs also in the AGC Central License Area.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Cost Pools

Cost Pools for each License Area, which are available for recovery through future oil sales from such License Area, as at September 30, 2018, are detailed in the table below:

License Area	Location	Gross Cost Pool (\$ million)	Group Participating Interest Cost Pool (\$ million)	Costs carried by Oryx Petroleum (\$ million)	Costs recovered through cost oil (\$ million)	Group share of recoverable costs available <sup>(1)(2)</sup> (\$ million)
<b>Hawler</b>	Iraq – Kurdistan Region	818.7	516.5	182.1 <sup>(3)</sup>	(70.0)	628.6
<b>AGC Central</b>	Senegal and Guinea Bissau	49.2	41.8	7.4	-	49.2
<b>Haute Mer A<sup>(4)</sup></b>	Congo (Brazzaville)	246.3	-	-	-	-
<b>Haute Mer B<sup>(5)</sup></b>	Congo (Brazzaville)	22.8	-	-	-	-
		<b>1,137.0</b>	<b>558.3</b>	<b>189.5</b>	<b>(70.0)</b>	<b>677.8</b>

Notes:

- (1) Cost Pool balances are subject to audit by relevant government entities.
- (2) Oryx Petroleum share of costs available for future recovery through the sale of cost oil.
- (3) Carried costs include \$110.7 million in expenditures related to a commitment to carry \$300 million on behalf of a partner for the Hawler License Area development.
- (4) During 2017, the Group determined to cease further investments in the Haute Mer A License Area. It is anticipated that the Group's interest in the Haute Mer A License Area will be assigned to the other partners in the License Area for nil consideration. Consequently, the Group has assumed its share of recoverable costs to be Nil.
- (5) On April 23, 2018, the Group entered into an agreement providing for the sale of the Group's 30% participating interest in the Haute Mer B license to a subsidiary of Total S.A. The transaction is expected to close during the fourth quarter of 2018. Consequently, the Group has assumed its share of recoverable costs to be Nil.

### Property, plant and equipment and intangible assets

The capital additions described in the sections above, net of depletion, depreciation and amortisation (“DD&A”) and net impairment reversals, have resulted in the following movements in intangible asset and PP&E balances during the three months ended March 31, 2018, June 30, 2018 and September 30, 2018:

(\$ thousands)	Exploration and Evaluation Assets	Other Intangible Assets	Total Intangible Assets
<b>As at January 1, 2018</b>	<b>92,180</b>	<b>27</b>	<b>92,207</b>
Capital additions	480	-	480
DD&A	-	(3)	(3)
<b>As at March 31, 2018</b>	<b>92,660</b>	<b>24</b>	<b>92,684</b>
Capital additions	558	-	558
DD&A	-	(24)	(24)
<b>As at June 30, 2018</b>	<b>93,218</b>	<b>-</b>	<b>93,218</b>
Capital additions	5,288	4	5,292
DD&A	-	-	-
<b>As at September 30, 2018</b>	<b>98,506</b>	<b>4</b>	<b>98,510</b>

(\$ thousands)	Oil & Gas assets	Furniture and fixtures	Total PP&E
<b>As at January 1, 2018</b>	<b>582,619</b>	<b>3</b>	<b>582,622</b>
Capital additions	5,683	-	5,683
DD&A	(2,224)	-	(2,224)
<b>As at March 31, 2018</b>	<b>586,078</b>	<b>3</b>	<b>586,081</b>
Capital additions	8,216	-	8,216
DD&A	(2,620)	(2)	(2,622)
<b>As at June 30, 2018</b>	<b>591,674</b>	<b>1</b>	<b>591,675</b>
Capital additions	6,926	236	7,162
DD&A	(4,308)	-	(4,308)
<b>As at September 30, 2018</b>	<b>594,292</b>	<b>237</b>	<b>594,529</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



## Financial Results

### Revenue

The following table summarises Oryx Petroleum's revenue for the three and nine months ended September 30, 2018 and 2017. All oil sold during each of the below periods was produced at the Hawler License Area.

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Oil Sales	26,427	8,862	55,084	22,381
Recovery of Carried Costs	2,928	982	6,102	2,479
<b>Revenue</b>	<b>29,355</b>	<b>9,844</b>	<b>61,186</b>	<b>24,860</b>

The Group recognised revenue on the sale of 430,900 bbl (Working Interest) of oil during the three months ended September 30, 2018, compared to revenue on the sale of 215,800 bbl (Working Interest) of oil during the same period in the previous year. Revenue of \$29.4 million during the third quarter of 2018 increased by \$19.5 million compared to the three months ended September 30, 2017. The increase in oil sales is attributable to a 49% increase in realised sales price and a 100% increase in sales volumes.

The Group recognised revenue on the sale of 915,600 bbl (Working Interest) of oil during the nine months ended September 30, 2018, compared to revenue on the sale of 554,200 bbl (Working Interest) of oil during the same period in the previous year. Revenue of \$61.2 million during the nine months ended September 30, 2018 increased by \$36.3 million compared to the nine months ended September 30, 2017. The increase in oil sales is attributable to a 49% increase in realised sales prices combined with a 65% increase in sales volumes.

Sales volumes are determined by the timing of deliveries to customers and are not directly correlated with production volumes. As at September 30, 2018, the Group's Working Interest share of oil inventory amounted to 10,600 bbl.

The Group has received payment in full for all crude oil delivered and sold through the KRG's international export pipeline up to and including August 31, 2018. At the date of the MD&A, the Group's entitlement share of amounts receivable from the KRG for crude oil delivered to the pipeline during September and October 2018 totals \$14.0 million.

### Royalties

The following table summarises royalty expense during the three and nine months ended September 30, 2018 and September 30, 2017:

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Royalties</b>	<b>12,918</b>	<b>4,332</b>	<b>26,925</b>	<b>10,940</b>

All remittances to governments that are directly attributable to the sale of oil during the reporting period, including the government share of Profit Oil but excluding income taxes, are reported as royalties. Royalties increased by \$8.6 million during the three months ended September 30, 2018, and increased by \$16.0 million during the nine months ended September 30, 2018, compared to the same periods in the previous year. The variances in royalties from period to period are attributable to the same factors as those applicable to revenues from oil sales as discussed above.

### Operating expense

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Field production costs <sup>(1)</sup>	4,260	2,572	9,430	8,904
Partner's share of production costs carried by Oryx Petroleum	1,311	792	2,901	2,741
<b>Operating expense</b>	<b>5,571</b>	<b>3,364</b>	<b>12,331</b>	<b>11,645</b>
Sales <sup>(2)</sup> (bbl)	430,900	215,800	915,600	554,200
<b>Field production costs<sup>(1)</sup> (\$/bbl)</b>	<b>9.89</b>	<b>11.92</b>	<b>10.30</b>	<b>16.07</b>
<b>Operating expense (\$/bbl)</b>	<b>12.93</b>	<b>15.59</b>	<b>13.47</b>	<b>21.01</b>

Notes:

- (1) Field production costs represent Oryx Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Oryx Petroleum.
- (2) Oryx Petroleum's Working Interest share.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating expense of \$5.6 million in the three months ended September 30, 2018 increased by \$2.2 million compared to the same period in the previous year. The increase in operating expenses is primarily attributable to increased facilities costs due to the expanded operations at the Zeg Gawra and Banan fields which commenced in the second quarter of 2018. Operating costs per barrel decreased during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 due to a 100% increase in sales volumes.

The variance between operating expenses for the nine month period ended September 30, 2018 and compared with the same period in 2017 is due to the same factors as those applicable to the three month period as discussed above.

The following table indicates the impact of the variances in operating expense between the second and third quarters of 2018:

(\$ thousands)	(\$000)	(\$/bbl)
<b>Operating expense – three months ended June 30, 2018</b>	<b>3,632</b>	<b>13.86</b>
Contribution of the following to variance:		
Personnel and camp costs	17	0.04
Well maintenance	10	0.02
Facilities lease and maintenance, diesel and operation	1,598	3.71
Security	314	0.73
Increase in production	-	(5.43)
<b>Operating expense – three months ended September 30, 2018</b>	<b>5,571</b>	<b>12.93</b>

### General and administration

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Total General and Administration</b>	<b>2,414</b>	<b>2,183</b>	<b>7,484</b>	<b>7,279</b>

General and administration expenses of \$2.4 million and \$7.5 million, incurred during the three and nine months ended September 30, 2018, respectively, are consistent with expenses incurred during the comparable periods during 2017.

### Exploration expense

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Total exploration expense</b>	<b>-</b>	<b>403</b>	<b>(61)</b>	<b>803</b>

Exploration costs relate to expenses incurred on the OML 141, Haute Mer A and Haute Mer B License Areas subsequent to the impairment of these License Areas during 2016 and 2017. A credit of \$0.1 million in the nine months ended September 30, 2018 related to revisions to estimates of costs incurred in prior periods.

### Impairment of oil and gas assets

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Impairment reversal	-	-	-	(1,132)
<b>Total impairment reversal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,132)</b>

During 2015, the Group fully impaired capitalised expenditures relating to its interest in the OML 141 License Area. An impairment reversal of \$1.1 million was recorded during the first quarter of 2017 based on revised estimates of previously impaired costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



### Depletion, depreciation and amortisation

The following table summarises the component parts of depletion, depreciation and amortisation for the three and nine months ended September 30, 2018 and 2017:

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Intangible assets: Amortisation	-	16	26	74
PP&E assets: Depreciation	-	(1)	-	3
Depletion	4,315	1,409	9,167	3,618
<b>Total DD&amp;A</b>	<b>4,315</b>	<b>1,424</b>	<b>9,193</b>	<b>3,695</b>

Depletion is calculated on a unit of production basis, which is the ratio of oil production volume during the period to the estimated quantities of proved plus probable oil reserves at the beginning of the period.

The increased depletion charge for the three and nine months ended September 30, 2018 is due to increased production and a higher depletion rate per barrel compared to the same periods in 2017. The per barrel charge for depletion has increased primarily as a result of reductions to estimated proved plus probable oil reserves from the Hawler License Area, recorded at December 31, 2017.

### Other expense / income

The following table summarises the components of other expense / income for the three and nine months ended September 30, 2018 compared to the same periods in 2017:

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Impairment of trade and other receivables	540	-	1,420	-
Settlement of finance lease liability	-	-	-	(7,605)
(Reduction) / Increase to impairment of materials inventory	(543)	(129)	(829)	34
Restructuring charge	-	-	-	(63)
Other	197	49	159	(75)
<b>Other expense / (income)</b>	<b>194</b>	<b>(80)</b>	<b>750</b>	<b>(7,709)</b>

Other expense for the three months ended September 30, 2018 relates primarily to a \$0.5 million impairment provision on trade and other receivables which is offset by a \$0.5 million reduction in inventory impairment provision.

Other expense for the nine months ended September 30, 2018 relates primarily to a \$1.4 million impairment provision on trade and other receivables which is partially offset by a \$0.8 million reduction in inventory impairment provision.

The \$7.6 million other income for the nine months ended September 30, 2017 is primarily a \$7.6 million gain related to the early settlement of the finance lease obligation related to Hawler production facilities.

### Finance expense

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest expense on Loan Facility	2,012	2,012	5,971	6,782
Accretion of deferred financing costs on Loan Facility	257	173	682	1,880
Change in fair value of contingent consideration	5,342	1,192	6,740	(569)
Interest on contingent consideration	898	361	2,663	1,106
Accretion of decommissioning liability	110	95	305	246
Interest expense on finance lease obligation	-	-	-	443
<b>Finance expense</b>	<b>8,619</b>	<b>3,833</b>	<b>16,361</b>	<b>9,888</b>

Finance expense for the three and nine months ended September 30, 2018 primarily relates to accrued interest and accretion of deferred financing costs associated with the Loan Facility and to the change in fair value and accrued interest associated with the contingent consideration.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Finance expense for the three and nine months ended September 30, 2018 includes a \$5.3 million and a \$6.7 million charge, respectively, relating to the increase in the fair value of previously recognised contingent consideration compared to a \$1.2 million charge recorded during the three months ended September 30, 2017 and a \$0.6 million gain recorded during the nine months ended September 30, 2017.

For the specific purpose of estimating the fair value of the contingent liability, management's estimate assumes that the Group will achieve a second declaration of commercial discovery in the Hawler License Area, that the contingent consideration will consequently become payable, and that the timing and amount of resulting cash outflows will be consistent with the terms outlined in 2018 Amendment (refer to the "Liquidity and Capital Resources" section of this MD&A for further information). The fair value of the contingent liability was established using observable inputs other than quoted prices (IFRS 13 Level 2 hierarchy category) and was determined by calculating the present value of estimated future cash flows using the discount rate adjustment technique. The future cash flows have been estimated based on the terms outlined in the agreement with the counterparty and discounted using an observed market rate for similar obligations. As at September 30, 2018, management has assumed an interest rate of 10% per annum and a 10% discount rate (December 31, 2017 – 5% interest rate, 10% discount rate).

### Income tax expense

The following table summarises the component parts of income tax expense for the three and nine months ended September 30, 2018 and September 30, 2017.

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Current income tax expense	632	229	1,371	691
Deferred tax (benefit) / expense	4	11	9	(131)
<b>Total income tax expense</b>	<b>635</b>	<b>240</b>	<b>1,380</b>	<b>560</b>

The current income tax expense includes amounts deemed to be collected by the KRG through its allocation of Profit Oil under the Hawler PSC.

### Liquidity and Capital Resources

During the nine months ended September 30, 2018, the Group met its day-to-day working capital requirements primarily through funding received through the cash receipts from oil sales.

#### Loan Facility

On March 11, 2015, the Group entered into a committed and unsecured term loan facility agreement (the "**Loan Facility**") with a subsidiary of its indirect controlling shareholder AOG (the "**Lender**"). The \$100 million Loan Facility has been fully drawn and had an initial maturity of March 10, 2018 (the "**Maturity Date**").

On April 28, 2017, the Loan Facility was amended to extend the Maturity Date from March 10, 2018 to July 1, 2019 and to amend interest payment terms (the "**Loan Amendment**"). Under the terms of the Loan Amendment, interest, which up to and including May 11, 2017 accrued at an annual compound rate of 10.5%, and principal amounts owing to the Lender up to and including May 11, 2017 (the "**Loan Amount**"), are payable at the Maturity Date or earlier, at the option of the borrower. Interest accrued on the Loan Amount after May 11, 2017 was determined on each of November 11, 2017, May 11, 2018, November 11, 2018 (each, an "**Interest Calculation Dates**") and has been paid to the Lender by way of issuance of Common Shares with the number of Common Shares were determined using the issue price per share equal to the volume weighted average trading price for the five trading days immediately preceding the Interest Calculation Dates.

On June 20, 2017, OPCL issued 131,933,226 Common Shares to a subsidiary of AOG for consideration of \$44.1 million. \$24.1 million of the proceeds from the issue and sale of Common Shares has been applied to extinguish principal and accrued interest under the Loan Facility.

On December 8, 2017, OPCL issued 24,481,049 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between May 11, 2017 and November 10, 2017.

On July 3, 2018, OPCL issued 22,188,975 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between November 11, 2017 and May 10, 2018.

On November 12, 2018, OPCL issued 23,051,817 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between May 11, 2018 and November 10, 2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On November 13, 2018, the Group agreed with the Lender to amend the Loan Facility to further extend the Maturity Date from July 1, 2019 to July 1, 2020 and to amend interest provisions (the "**2nd Loan Amendment**"). The Company has agreed to issue warrants to acquire between 3,637,262 and 6,853,677 million Common Shares to the Lender. The warrants will have an exercise price of \$0.2094 per Common Share and the warrants will expire on November 13, 2021. The Loan Amount and interest rate remain unchanged from the terms agreed under the Loan Amendment. Interest accrued on the Loan Amount for the period beginning on November 12, 2018 and ending on July 1, 2019 is to be paid to the Lender by way of issuance of Common Shares as contemplated in the Loan Amendment. If cash payments to the Lender are then permitted under the terms of other corporate agreements, interest on the Loan Amount accruing after July 1, 2019 will be payable in cash on January 1, 2020 and July 1, 2020. If interest is not paid in cash, the interest due on January 1, 2020 will be capitalised ("**Capitalised Interest**") and added to the Loan Amount and interest on the Loan Amount and Capitalised Interest shall then accrue and be payable at the Maturity Date. The 2nd Loan Amendment is subject to the approval of the Toronto Stock Exchange

As at September 30, 2018, the carrying value of the balance owed under the Loan Facility was \$80.2 million, including \$3.1 million in accrued interest that was paid through the issuance of Common Shares on November 12, 2018. The total undiscounted principal plus accrued interest owed at September 30, 2018 was \$81.1 million.

### Interim credit facility

On November 13, 2018, the Group entered into a committed and unsecured term loan agreement ("**Interim Credit Facility**") jointly with an affiliate of AOG and Zeg Oil and Gas. The Interim Credit Facility provides the Group with access to \$7.5 million, to be drawn no later than December 31, 2018. Amounts drawn under the Interim Credit Facility ("**Principal**") shall bear interest at annual rate of 10.5% calculated daily and compounding at the end of each calendar month ("**Interest**"). Principal and Interest are payable on the earlier of i) two business days after receipt by the Group of the proceeds from the sale of assets held for disposal, and ii) March 31, 2019 (the "**Interim Credit Facility Maturity Date**"). The Group has the option to repay the Interim Credit Facility in cash or through the issuance of Common Shares at an issuance price equal to \$0.1731 per Common Share. The Interim Credit Facility is subject to the approval of the Toronto Stock Exchange.

### Contingent consideration

During 2011, the Group acquired OP Hawler Kurdistan Limited under the terms of a sale and purchase agreement (the "**Purchase Agreement**"). The Group has recently agreed with the vendor of the Hawler License Area to amend terms of Purchase Agreement (the "**2018 Amendment**"), with execution of the 2018 Amendment expected in the coming days.

The 2018 Amendment provides for a \$11.4 million deferral payment which the Group expects to make upon execution of the agreement. Contingent upon declaration of a second commercial discovery in the Hawler License Area, the 2018 Agreement provides for fixed payments of principal plus interest scheduled as follows: \$20.0 million plus accrued interest in September 2019, \$25.0 million plus accrued interest in September 2020, and \$11.0 million plus accrued interest in September 2021. The estimated fair value of the contingent consideration as at September 30, 2018 was \$67.9 million.

If the Group has not declared a second commercial discovery by September 30, 2019 (previously September 30, 2018), the instalment payment schedule will no longer apply and the contingent consideration obligation, if subsequently triggered by a second commercial discovery, will revert to a single lump-sum payment obligation.

Oryx Petroleum paid \$20.0 million plus interest during 2014 in satisfaction of the obligation arising upon the first commercial discovery and \$5 million plus interest during the third quarter of 2017 as a non-refundable prepayment against the contingent obligation arising upon a possible second commercial discovery.

The 2018 Amendment provides for additional consideration which becomes payable upon the outcome of exploration activities. The associated contingent liability is presented at management's estimate of fair value, which as at September 30, 2018, amounted to \$74.2 million (December 31, 2017 - \$64.8 million). During the three and nine months ended September 30, 2018, contingent interest accrued at a rate of 5.0% per annum. During the three and nine months ended September 30, 2017, contingent interest accrued at a rate of 1.9% per annum. For periods beginning on October 1, 2018, if the average price of crude oil exceeds \$75/bbl during any year ending on September 30, the amended Purchase Agreement prescribes that the annually compounding interest rate increase to 10% per annum.

The total undiscounted balance of principal and accrued interest potentially owed under the contingent consideration obligation was \$86.3 million as at September 30, 2018.

### Liquidity outlook

The Group expects cash on hand as of September 30, 2018, cash receipts from export sales exclusively through the Kurdistan Region-Turkey Export Pipeline, expected net proceeds from the sale of its interest in the Haute Mer B License Area and, if needed, drawdowns on the recently secured \$7.5 million Interim Credit Facility to fund its forecasted cash expenditures and to meet its obligations through the end of 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See the "New Accounting Pronouncements, Policies, and Critical Estimates – Going Concern" section of this MD&A for discussion regarding uncertainties and risks associated with the Group's ability to continue as a going concern.

The following table summarises the components of Oryx Petroleum's consolidated cash flows for the periods indicated:

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Operating Funds Flow <sup>(1)</sup>	8,400	(645)	14,128	(5,353)
Change in non-cash working capital	(3,481)	(3,979)	(13,382)	1,759
<b>Net cash generated by / (used in) operating activities</b>	<b>4,919</b>	<b>(4,624)</b>	<b>746</b>	<b>(3,594)</b>
Additions to E&E and PP&E	(11,482)	(3,720)	(25,350)	(16,502)
Additions to Assets held for disposal	-	-	(5,266)	-
Change in non-cash working capital	2,285	(2,766)	9,077	(4,269)
<b>Net cash used in investing activities</b>	<b>(9,197)</b>	<b>(6,486)</b>	<b>(21,539)</b>	<b>(20,771)</b>
<b>Net cash (used in) / generated by financing activities</b>	<b>-</b>	<b>-</b>	<b>(731)</b>	<b>29,897</b>
<b>Total change in cash</b>	<b>(4,278)</b>	<b>(11,110)</b>	<b>(21,524)</b>	<b>5,532</b>
Cash and cash equivalents at beginning of the period	21,326	57,374	38,572	40,732
<b>Cash and cash equivalents at end of the period</b>	<b>17,048</b>	<b>46,264</b>	<b>17,048</b>	<b>46,264</b>

Note:

(1) Operating Funds Flow is a non-IFRS measure. See the "Non-IFRS Measures" section of this MD&A.

During the three months ended September 30, 2018, the Group invested \$11.5 million in exploration, appraisal, and development activities in the Hawler and AGC Central License Areas. The Group invested \$6.0 million primarily on drilling activities in the Banan and Zey Gawra fields in the Hawler License Area, and \$5.3 million to licence, interpret and analyse 3D seismic data and to prepare for drilling activities in the AGC Central License Area. Operating activities for the three months ended September 30, 2018 generated \$4.9 million in cash, reflecting Operating Funds Flow of \$8.4 million, partially offset by a \$3.5 million increase in non-cash working capital which was primarily related to an increase in trade and other receivables partially offset by an increase in accounts payable.

The Group invested \$25.4 million during the nine months ended September 30, 2018 in exploration, appraisal, and development in the Hawler and AGC Central License Areas. During this period, the Group invested \$18.7 million primarily on drilling activities in the Banan and Zey Gawra fields in the Hawler License Area, and \$6.4 million to licence, interpret and analyse 3D seismic data and to prepare for drilling activities in the AGC Central License Area. Investing activities during the nine months ended September 30, 2018 also include \$5.3 million to fund Haute Mer B License Area cash calls, which is expected to be recovered upon closing of the sale of the Group's interest in this License Area. Operating activities for the period generated \$0.7 million in cash reflecting Operating Funds Flow of \$14.1 million, partially offset by an increase in non-cash working capital comprising of an increase in trade and other receivables and a decrease in trade and other payables. Financing activities for the period used \$0.7 million in cash to purchase the remaining minority shares in KPA Western Desert Energy Limited.

### Risks and uncertainties

The Group's ability to realise cash inflows from crude oil sales is subject to significant uncertainty related to the future performance and productivity of individual wells and production facilities, future crude oil prices, and customer credit risk. In particular, credit risk is impacted by the uncertainty associated with political tensions between the governments of Iraq and the Kurdistan Region of Iraq as discussed in the "Business Environment" section of this MD&A. The Group's ability to secure external financing, if and when required, is also subject to significant uncertainty and is dependent on the Group's performance and on market conditions. Furthermore, the execution of capital investment plans requires significant capital expenditures. Long lead times between initiation of commitments to capital projects and completion thereof are common in the industry. During these lead times, Oryx Petroleum expects to incur significant costs at a level which may be difficult to predict. The Group expects to finance its activities through the end of 2019 through current cash reserves, proceeds from the sale of assets held for disposal, positive Operating Funds Flow and, if needed, drawdowns on the Interim Credit Facility. Prevailing market conditions, together with Oryx Petroleum's business performance, will impact the Group's ability to realise required Operating Funds Flows and to arrange further financing as needed. While the Group retains the flexibility to defer certain budgeted expenditures and to adjust the timing of its expenditures on the development of the Hawler License Area, slowing the rate of development expenditures related to the Hawler License Area would be likely to impede the Group's ability to achieve expected production and sales levels. Refer to the "Critical estimates" section of this MD&A for additional discussion regarding management's going concern assumption which contemplates that the Group will realise its assets and

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

settle its liabilities and commitments in the normal course of business for the foreseeable future.

### Economic Sensitivities

The following table shows the estimated effect that changes to crude oil prices, Gross (100%) oil sale volumes, operating costs and interest rates would have had on the Group's profit for the nine months ended September 30, 2018, had these changes occurred on January 1, 2018. These calculations are based on business conditions, production and sales volumes existing during the nine months ended September 30, 2018. The 1,000 bbl/d increase assumes the increase is to Gross (100%) sale volumes and the Group's entitlement is calculated according to the provisions of the Hawler PSC and Joint Operating Agreement.

	Change	Loss impact (\$000s)	Loss impact (\$ per basic share)
Change in average realised price	\$10.00/bbl	6,247	0.01
Change in crude oil sales volumes	1,000 bbl/d	7,284	0.02
Change in operating expenses	\$1.00/bbl	915	-
Change in interest rate	1%	509	-

The future cash flows relating to the contingent consideration balance (refer to the "Liquidity and Capital Resources" section of this MD&A) have been estimated based on the terms outlined in the agreement with the counterparty and discounted using an observed market rate for similar obligations. As at September 30, 2018, management has assumed a 10% interest rate and a 10% discount rate. The following table shows the estimated effect that a 5% change in the interest rate and discount rate would have had on the Group's profit for the nine months ended September 30, 2018.

	Change	Loss impact (\$000s)	Loss impact (\$ per basic share)
Change in interest rate	5%	4,602	0.01
Change in discount rate	5%	6,272	0.01

The impact of the above changes may be compounded or offset by changes to other business conditions. In addition, the tables do not reflect any inter-relationships between the above factors. Changes in foreign exchange rates have not been considered in this analysis as they do not have a significant impact on the Group's operations.

### Non-IFRS Measures

#### Field Netback

Field Netback is a non-IFRS measure that represents the Group's Working Interest share of oil sales net of the Group's Working Interest share of Royalties, the Group's Working Interest share of operating expense and the Group's Working Interest share of taxes.

Management believes that Field Netback is a useful supplemental measure to analyse operating performance and provides an indication of the results generated by the Group's principal business activities prior to the consideration of PSC and Joint Operating Agreement financing characteristics, and other income and expenses. Field Netback does not have a standard meaning under IFRS and may not be comparable to similar measures used by other companies. See the "Operations Review" section of this MD&A for a reconciliation of Field Netback.

#### Oryx Petroleum Netback

Oryx Petroleum Netback is a non-IFRS measure that represents Field Netback adjusted to reflect the impact of Carried Costs incurred and recovered through the sale of Cost Oil during the reporting period. Management believes that Oryx Petroleum Netback is a useful supplemental measure to analyse the net cash impact of the Group's principal business activities prior to the consideration of other income and expenses. Oryx Petroleum Netback does not have a standard meaning under IFRS and may not be comparable to similar measures used by other companies. See the "Operations Review" section of this MD&A for a reconciliation of Oryx Petroleum Netback.

#### Operating Funds Flow (previously referred to as "Operating Cash Flow")

Operating Funds Flow is a non-IFRS measure that represents cash generated from operating activities before changes in non-cash working capital. The term Operating Funds Flow should not be considered an alternative to or more meaningful than "net cash used in operating activities" as determined in accordance with IFRS.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management considers Operating Funds Flow to be a key measure as it demonstrates the Group's ability to generate the cash necessary to fund future growth through capital investment. Operating Funds Flow does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. In previous disclosure, Operating Funds Flow was referred to as Operating Cash Flow.

The following table reconciles Operating Funds Flow to the IFRS measure of 'Net cash used in operating activities':

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Net cash generated by / (used in) operating activities	4,919	(4,624)	746	(3,594)
Changes in non-cash working capital	3,481	3,979	13,382	(1,759)
<b>Operating Funds Flow</b>	<b>8,400</b>	<b>(645)</b>	<b>14,128</b>	<b>(5,353)</b>

### Outstanding Share Data

In January 2017, the directors of OPCL were awarded 248,755 Common Shares (\$0.1 million) for services provided in the third and fourth quarters of 2016.

On March 15, 2017, the Company issued 15.5 million Common Shares to settle a \$4.8 million trade payable.

On June 20, 2017, OPCL issued 131,933,226 Common Shares to a subsidiary of AOG for consideration of \$44.1 million. \$24.1 million of the proceeds from the issue and sale of Common Shares has been applied to extinguish principal and accrued interest under the Loan Facility. On June 20, 2017, the Company also issued 29,916,831 Common Shares to Zeg Oil and Gas for consideration of \$10.0 million.

In July 2017, the directors of OPCL were awarded 163,073 Common Shares (\$0.1 million) for services provided in the first and second quarters of 2017.

On July 3, 2017, the Group issued 62,173 Common Shares to an employee under the Group's Long Term Incentive Plan ("LTIP"). On September 1, 2017, the Group issued 2,248,616 Common Shares to employees under the LTIP.

On December 4, 2017, the Group issued 147,103 Common Shares to an employee under the LTIP.

On December 8, 2017, OPCL issued 24,481,049 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between May 11, 2017 and November 10, 2017.

In January 2018, the directors of OPCL were awarded 360,372 Common Shares (\$0.1 million) for services provided in the third and fourth quarters of 2017.

On July 3, 2018, OPCL issued 22,188,975 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between November 11, 2017 and May 10, 2018.

On September 4, 2018, the Group issued 4,054,887 Common Shares to employees under the LTIP. Upon vesting, OPCL LTIP share awards granted to the date of this MD&A will result in the issuance of up to an additional 19,670,514 Common Shares in 2019 and 2020.

On November 12, 2018, OPCL issued 23,051,817 common shares of the Company to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At the date of this M&DA, a total of 507,718,458 Common Shares are issued and outstanding.

The following table summarises warrants which were issued in conjunction with the Loan Facility and are outstanding and exercisable at September 30, 2018.

	Warrants	Exercise price USD	Expiry date
Issued December 15, 2015	4,000,000	0.50	December 15, 2018
<b>Total outstanding and exercisable</b>	<b>4,000,000</b>		

On November 13, 2018, the Group agreed with the Lender to amend the Loan Facility to further extend the Maturity Date from July 1, 2019 to July 1, 2020 and to amend interest payment terms. The Company has agreed to issue warrants to acquire between 3,637,262 and 6,853,677 Common Shares of the Company to the Lender. The warrants will have an exercise price of \$0.2094 per Common Share and the warrants will expire on November 13, 2021.

The Group has the option to repay the Interim Credit Facility in cash or through the issuance of Common Shares at an issuance price equal to \$0.1731 per Common Share

At the date of this MD&A, other than the warrants and unvested LTIP shares described above, there are no securities convertible into or exercisable or exchangeable for voting shares.

There were no repurchases of OPCL's equity securities by the Company during the three or nine months ended September 30, 2018.

### Commitments and Contractual Obligations

The table below sets forth information relating to Oryx Petroleum's commitments and contractual obligations as at September 30, 2018.

(\$ thousands)	Within One Year	From 1 to 5 Years	More than 5 Years	Total
Operating leases <sup>(1)</sup>	135	31	-	166
Other obligations <sup>(2)</sup>	2,523	38,844	16,114	57,481
<b>Total</b>	<b>2,658</b>	<b>38,875</b>	<b>16,114</b>	<b>57,647</b>

(1) Operating leases primarily relate to office rent.

(2) Consists principally of obligations related to PSC commitments and capital expenditure commitments. The main purpose of these commitments is to develop the Group's oil and gas assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Summary of Quarterly Results

The following table sets forth a summary of Oryx Petroleum's results for the indicated quarterly periods.

(\$ thousands, unless otherwise stated)	2016	2017				2018		
	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30
Revenue, net of royalties	4,386	4,426	3,982	5,512	7,004	7,800	10,024	16,437
Operating expense	(3,066)	(4,249)	(4,032)	(3,364)	(3,840)	(3,128)	(3,632)	(5,571)
Depletion	(1,204)	(1,108)	(1,101)	(1,409)	(2,276)	(2,224)	(2,622)	(4,315)
G&A	(2,628)	(2,584)	(2,512)	(2,183)	(3,404)	(2,712)	(2,358)	(2,414)
Profit / (Loss)	(26,205)	4,137	(9,199)	(5,860)	(28,128)	(4,275)	(3,522)	(5,216)
Earnings / (Loss) per share (basic and diluted) (\$/share)	(0.10)	0.02	(0.03)	(0.01)	(0.06)	(0.01)	(0.01)	(0.01)
Operating Funds Flow <sup>(2)</sup>	(1,672)	(2,606)	(2,102)	(645)	(333)	1,428	4,298	8,400
Gross Production (bbl)	286,000	263,300	260,200	330,900	347,800	341,700	402,600	661,900
WI Production (bbl)	186,000	171,200	169,100	215,100	226,100	222,100	261,700	430,200
Gross Sales (bbl)	279,900	261,100	259,600	332,000	346,100	342,600	403,000	662,900
WI Sales (bbl)	182,000	169,800	168,800	215,800	225,000	222,700	262,000	430,900
Field production costs <sup>(1)</sup>	(2,345)	(3,249)	(3,083)	(2,572)	(2,937)	(2,392)	(2,777)	(4,260)
Field Netback <sup>(2)</sup>	1,099	228	44	1,757	2,564	3,735	5,096	8,649
Oryx Petroleum Netback <sup>(2)</sup>	1,160	16	(196)	1,947	2,908	4,388	6,026	10,266
Brent price (\$/bbl)	49.96	54.13	50.28	51.72	61.26	66.82	74.39	75.16
Sales price (\$/bbl)	38.75	41.92	37.93	41.07	50.04	56.31	61.51	61.33
Royalties (\$/bbl)	(18.93)	(20.48)	(18.55)	(20.08)	(24.46)	(27.53)	(30.06)	(29.98)
Field production costs <sup>(1)</sup> (\$/bbl)	(12.88)	(19.13)	(18.25)	(11.92)	(13.06)	(10.74)	(10.60)	(9.89)
Current taxes (\$/bbl)	(0.88)	(0.95)	(0.86)	(0.93)	(1.13)	(1.28)	(1.40)	(1.39)
Field Netback <sup>(2)</sup> (\$/bbl)	6.04	1.35	0.27	8.14	11.39	16.76	19.45	20.07
Oryx Petroleum Netback <sup>(2)</sup> (\$/bbl)	6.37	0.10	(1.15)	9.02	12.92	19.70	23.00	23.83
Capital additions	10,513	(5,911)	814	3,823	4,611	6,164	8,774	12,454

Notes:

- (1) Field production costs represent Oryx Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Oryx Petroleum. See the "Operating expense" section of this MD&A.
- (2) Operating Funds Flow, Field Netback and Oryx Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.

Variations in revenue are attributable to changes in realised sales prices which have been broadly referenced to Brent crude oil prices and sales volumes which have fluctuated due to the variations in production from the Hawler License Area. There were no significant interruptions in production during the three or nine months ended September 30, 2018 and production and sale volumes began to increase in late 2016 and during the second and third quarters of 2018 as a result of incremental production from the Hawler License Area's Zey Gawra and Banan fields, respectively.

Variations in Field Netback and Oryx Petroleum Netback reflect changes in revenue discussed above and the impact of changes in field production costs. Following decreased activity during the second quarter of 2015, field production costs incurred during the years ended December 31, 2016 and 2017 reflect management's consequent efforts to reduce costs. Field production costs have increased during 2017 and into 2018 as additional wells from the Zey Gawra and Banan fields have been brought onto production. Total capital additions for the three months ended March 31, 2017 include \$7.3 million in non-cash credits relating to revised estimates of previously recorded costs. Capital additions are otherwise primarily associated with appraisal activity in the Hawler license area for all quarterly periods presented. Capital additions during the three months ended September 30, 2018 include \$5.3 million related to the AGC Central License Area.

The increase in Operating Funds Flow over the periods presented is primarily attributable to increased production and crude oil prices.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



### Financial and Other Instruments and Off Balance Sheet Arrangements

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Oryx Petroleum was not party to any off-balance sheet arrangements during the nine months ended September 30, 2018 that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of Oryx Petroleum. Further, on the date of this MD&A, Oryx Petroleum is not party to any such off-balance sheet arrangements.

Refer to the Financial Statements for further information on significant assumptions made in determining the fair value and classification of financial instruments recognised during the period.

### Transactions with Related Parties

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On March 11, 2015, the Group entered into a committed and unsecured term loan facility agreement with a subsidiary of its indirect controlling shareholder AOG. Interest expense of \$6.0 million relating to this transaction has been recorded for the nine months ended September 30, 2018 (2017 - \$6.8 million). On June 20, 2017, OPCL issued 131,933,226 Common Shares to a subsidiary of AOG for consideration of \$44.1 million. \$24.1 million of the proceeds from the issue and sale of Common Shares has been applied to extinguish principal and accrued interest under the Loan Facility. On June 20, 2017, the Company also issued 29,916,831 Common Shares to Zeg Oil and Gas for consideration of \$10.0 million. On December 8, 2017, OPCL issued 24,481,049 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between May 11, 2017 and November 10, 2017. On July 3, 2018 OPCL issued 22,188,975 Common Shares to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility between November 11, 2017 and May 10, 2018. On November 12, 2018, OPCL issued 23,051,817 Common Shares of the Company to a subsidiary of AOG in satisfaction of \$4.0 million of interest accrued under the Loan Facility. The Loan Amendment discussed in the "Liquidity and Capital Resources" section of this MD&A was a transaction involving related parties. Management has assessed the terms and conditions to be materially comparable to terms applicable to similar market transactions.

On November 13, 2018, the Group entered into an Interim Credit Facility jointly with an affiliate of AOG and Zeg Oil and Gas. The Interim Credit Facility provides the Group with access to \$7.5 million, to be drawn no later than December 31, 2018. Refer to the "Liquidity and Capital Resources" section of this MD&A.

On October 19, 2016, the Group entered into an office lease agreement with a subsidiary of its indirect controlling shareholder. Rental expense of \$51 thousand and \$149 thousand relating to this agreement was recorded for the three and nine months ended September 30, 2018, respectively. An operating lease commitment of \$0.1 million has been included in commitments as at September 30, 2018.

For the three and nine months ended September 30, 2018, the Group incurred costs of \$0.4 million and \$1.3 million, respectively, for goods and services provided by related parties, all of which are subsidiaries of AOG (2017: \$0.4 million and \$1.3 million). Costs related to trademark license fees, parent company guarantees, and management services have been incurred under agreements between the Group and AOG. Additional information relating to such agreements is available in OPCL's Annual Information Form dated March 23, 2018 available on SEDAR at [www.sedar.com](http://www.sedar.com). Management exercised judgment, which was based on its industry specific knowledge and experience, to determine that i) the transactions described above did not contain any unusual commercial terms, and ii) the fees charged under the agreements were reasonable and not materially inconsistent with fees which would normally be associated with broadly comparable agreements.

In July 2018, directors of OPCL were awarded \$0.3 million in cash as remuneration for services provided in the first and second quarters of 2018. In January 2018, directors of OPCL were awarded 360,372 Common Shares (\$0.1 million) and \$0.2 million in cash as remuneration for services provided in the third and fourth quarters of 2017. In July 2017, the directors of OPCL were awarded 163,073 Common Shares (\$0.1 million) and \$0.1 million in cash remuneration for services provided in the first and second quarters of 2017. In January 2017, directors of OPCL were awarded 248,755 Common Shares (\$0.1 million) and \$0.1 million in cash as remuneration for services provided in the third and fourth quarters of 2016.

### New Accounting Pronouncements, Policies, and Critical Estimates

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#### New Pronouncements

Oryx Petroleum has adopted the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee that are relevant to its operations and effective for accounting periods beginning on or after January 1, 2018 as described in Note 2 of the Financial Statements. The adoption of these standards and interpretations has not had a material effect on OPCL.

#### *IFRS 9 – Financial Instruments*

On January 1, 2018, the Group adopted IFRS 9 "Financial Instruments" as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and a forward looking expected-credit loss model.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Group has revised its accounting policy for financial assets and trade and other receivables to reflect the new classification approach as follows:

### Financial assets

The Group classifies its financial assets in the following categories: amortised cost and fair value through profit or loss. The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Management determines the classification of its financial assets upon initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

#### **i. Financial assets at amortised cost**

Financial assets classified as amortised cost are held to collect contractual cash flows that solely represent repayments of the carrying amount of the asset upon initial recognition and interest, if any. These financial assets are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### **iii. Financial assets at fair value through profit or loss**

All other financial assets, not classified at amortised cost or at fair value through other comprehensive income, are classified and subsequently measured at fair value through profit or loss.

### Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established based on the probabilities of possible defaults scenarios, and on changes in those possible defaults scenarios at each reporting date.

### ***IFRS 15 – Revenue from contracts with customers***

On January 1, 2018, the Group adopted IFRS 15 "Revenue from contracts with customers". IFRS 15 establishes a comprehensive framework to determine whether, how much, and when revenue from contracts with customers is recognised.

The Group implemented IFRS 15 using the modified retrospective approach with no impact on retained earnings and no changes or adjustments to comparative figures in prior reporting periods.

The Group has revised its accounting policy for revenue as follows:

### Revenue

The Group recognises revenue associated with the sale of the Group's working interest share of oil and natural gas products when control of the product is transferred to its customer(s) at which point the Group has satisfied its performance obligations. Revenue is measured on the basis of the consideration specified in the commercial agreements governing the sale of oil and natural gas products.

The Group incurs operating and capital costs for the exploration and development of various License Areas. Agreements governing the exploration and development activities establish terms for the Group to recover these costs from the value of the sales of oil and natural gas products (Cost Recovery Oil) and to share in the value of the remaining oil and natural gas products (Profit Oil). The Group's revenue includes the value of gross sales representing the sum of Cost Recovery Oil and Profit Oil.

All remittances to governments who are party to the applicable Production Sharing Contract ("PSC") that are directly attributable to the sale of oil and natural gas products during the reporting period including the government share of Profit Oil described above, except for income taxes, are reported as royalties.

Under the terms of certain PSCs, the governments' share of Profit Oil includes an amount in respect of income taxes payable by the Group under the laws of the respective jurisdiction. As this amount is classified as income tax in accordance with IAS 12, the Group recognises the amount as a deduction to royalties with a corresponding income tax expense when the oil and natural gas products are sold.

### **Critical estimates**

In the process of applying the Group's accounting policies management makes estimates, judgments and assumptions concerning the future. These accounting estimates, judgments and assumptions may differ from actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Such estimates, judgments and assumptions have a significant

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

risk of causing a material adjustment to the carrying amounts of assets and liabilities. The critical estimates discussed in the Group's MD&A for the year ended December 31, 2017 remain applicable to the nine month period ended September 30, 2018 and, with the exception of the estimates discussed below, there have been no material changes in estimates.

### Going Concern

#### Financial statement disclosure

The Financial Statements have been prepared on a going concern basis which contemplates the realisation of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. During 2018, the Group has met its day to day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share issuances and its share of oil sales revenues from the Hawler License Area.

The Group's ability to continue as a going concern in accordance with management's estimates and forecasts is primarily dependent on a) receipt of proceeds from the sale of assets held for disposal or financing available under the Interim Credit Facility if required, b) the Group's ability to produce and sell crude oil from the Hawler License Area in accordance with the its 2019 work program and budget, and c) completion of the restructuring of the cash outflow related to Borrowings and execution of the agreement to amend the terms of the contingent consideration.

The Directors expect that cash resources on hand as at September 30, 2018, future cash receipts from sales of its share of oil production from the Hawler License Area, receipt of proceeds from the sale of assets held for disposal or if required, funds available under the terms of the Interim Credit Facility, will be sufficient to fund the Group's capital and operating expenditures and to meet forecast obligations as they fall due in the 15 months following September 30, 2018.

In preparing forecasts supporting the going concern assumption, management has applied the following significant judgments and assumptions:

- i) The timing and extent of forecast capital and operating expenditures is based on the Group's 2018 reforecast, and on the Group's approved 2019 work program and budget. The Group retains a high degree of control and flexibility over both the extent and timing of expenditure under its capital investment program.
- ii) Oil production volume assumptions are based on current gross production adjusted to account for production increases expected to result from the execution of the Group's work program during the remainder of 2018 and during 2019.
- iii) The amendment extending the Maturity Date of Borrowings from July 1, 2019 to July 1, 2020, and the Interim Credit Facility will receive Toronto Stock Exchange approval.
- iv) The agreement to amend the terms of the contingent consideration will be executed.

Should the Group be unable to meet its obligations as they fall due and to fund its anticipated capital investments and operating expenditures, the preparation of the Financial Statements on a going concern basis may not be appropriate. The Financial Statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Such adjustments may be material.

The directors have considered the judgments, estimates, and related uncertainties discussed above and have concluded that there is a reasonable expectation that the Group will have adequate resources to continue operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the Financial Statements.

#### Forward-looking information

The table below outlines the material differences between actual and previously forecasted "net cash receipts from sales of the Group's share of oil production from the Hawler License Area":

Forecast period (\$ millions)	Net cash receipts from oil sales		Variance <sup>(1)</sup>
	Forecast	Actual	
October 1, 2016 – March 31, 2018	68	28	\$40
January 1, 2017 – June 30, 2018	67	32	\$35
April 1, 2017 – September 30, 2018	87	34	\$53

#### Notes:

*The difference between forecasted and actual net cash receipts from oil sales is primarily due to lower production volumes than forecast. The interpretation of technical data (including crude oil productivity rates) from appraisal drilling activities caused the Group to defer capital investment, and consequently, the associated forecasted production increases were also deferred. The deferment of capital investment also had a significant impact on expenditure profiles that reduced the requirements for the contribution of cash from the sale of the Group's share of oil production from the Hawler License Area during the above forecast periods.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Contingent liabilities*

For the specific purpose of estimating the fair value of the contingent liability, management's estimate assumes that the Group will achieve a second declaration of commercial discovery in the Hawler License Area, that the contingent consideration will consequently become payable, and that the timing and amount of resulting cash outflows will be consistent with the terms outlined in 2018 Amendment. The fair value of the contingent liability was established using observable inputs other than quoted prices (IFRS 13 Level 2 hierarchy category) and was determined by calculating the present value of estimated future cash flows using the discount rate adjustment technique. The future cash flows have been estimated based on the terms outlined in the agreement with the counterparty and discounted using an observed market rate for similar obligations. As at September 30, 2018, management has assumed an interest rate of 10% per annum and a 10% discount rate (December 31, 2017 – 5% interest rate, 10% discount rate).

## Financial Controls

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### Disclosure Controls and Procedures

Disclosure Controls and Procedures have been designed under the supervision of the Chief Executive Officer ("CEO") and the Head of Corporate Finance and Planning (acting as CFO), with the participation of other management, to provide reasonable assurance that information required to be disclosed is recorded, processed, summarised and reported within the time periods specified in applicable securities legislation, and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and Head of Corporate Finance and Planning (acting as CFO), as appropriate to allow timely decisions regarding required disclosure.

### Internal Controls over Financial Reporting

Internal Controls over Financial Reporting ("ICFR") have been designed under the supervision of the CEO and the Head of Corporate Finance and Planning (acting as CFO), with the participation of other management, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements in accordance with IFRS. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in Oryx Petroleum's ICFR during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, Oryx Petroleum's ICFR.

## Forward-Looking Information

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Certain statements in this MD&A constitute "forward-looking information" within the meaning of applicable Canadian securities legislation, including statements related to the nature, timing and effect of Oryx Petroleum's forecast capital expenditure for 2018, budgeted capital expenditures for 2019, financing and capital activities, the additional liquidity required to fund future expenditures, expectations that cash on hand as of September 30, 2018, cash receipts from exports sales exclusively through the Kurdistan Region-Turkey Export Pipeline, expected net proceeds from the sale of its interest in the Haute Mer B License Area, and, if needed, drawdowns under the Interim Credit Facility, will allow the Group to fund its forecasted cash expenditures and to meet its obligations through the end of 2019, expected closing of a transaction to transfer the Corporation's interests in the Haute Mer B License Area in Q4 2018 and the expected cash consideration to result therefrom, business and acquisition strategy and goals, opportunities, drilling and well workover plans, development plans and schedules and chance of success, results of exploration activities, declarations of commercial discovery, contingent liabilities and government approvals, the ability to consistently access the export pipeline or other exterior facilities to sell oil production, sales channels for future sales, future drilling of new wells and the reservoirs to be targeted, costs and drilling times for new wells, ultimate recoverability of current and long-term assets, estimates of oil reserves and resources, future royalties and tax levels, access to and sources of future financing and liquidity, future debt levels, availability of committed credit facilities, possible commerciality of our projects, expected operating capacity, expected operating costs, guidance regarding operating expenses on a per barrel basis, plans to continue interpreting 3D seismic data from the AGC Central License Area and identifying prospects and preparing for drilling, estimates on a per share basis, future foreign currency exchange rates, the issuance of shares as a result of the vesting of LTIP awards and in consideration of interest under the Loan Facility, exercise of outstanding warrants, the issuance of warrants to AOG pursuant to the 2nd Loan Amendment, estimates for the fair value of the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, the expected timing for settlement of liabilities including the Loan Facility and the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, expected execution of an agreement in the coming days to amend the terms of such contingent consideration with a payment to follow, changes in any of the foregoing, and statements that contain words such as "may", "will", "would", "could", "should", "anticipate", "believe", "intend", "expect", "plan", "estimate", "budget", "outlook", "propose", "potentially", "project", "forecast" or the negative of such expressions and

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

statements relating to matters that are not historical fact. Although Oryx Petroleum believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. In making certain statements in this MD&A, Oryx Petroleum has made assumptions with respect to the following: the general continuance of the current or, where applicable, assumed industry conditions, the continuation of assumed tax, royalties and regulatory regimes, forecasts of capital expenditures and the sources of financing thereof, timing and results of exploration activities, access to local and international markets for future crude oil production and future crude oil prices, Oryx Petroleum's ability to obtain and retain qualified staff, contractors and personnel and equipment in a timely and cost-efficient manner, the political situation and stability in jurisdictions in which Oryx Petroleum has licenses, the ability to renew its licenses on attractive terms, Oryx Petroleum's future production levels, the applicability of technologies for the recovery and production of Oryx Petroleum's oil reserves and resources, the amount, nature, timing and effects of capital expenditures, geological and engineering estimates in respect of Oryx Petroleum's reserves and resources, the geography of the areas in which Oryx Petroleum is conducting exploration and development activities, operating and other costs, the extent of Oryx Petroleum's liabilities, and business strategies and plans of management and Oryx Petroleum's business partners. For more information about these assumptions and risks facing the Group, refer to the Group's Annual Information Form dated March 23, 2018, available at [www.sedar.com](http://www.sedar.com) and the Group's website at [www.oryxpetroleum.com](http://www.oryxpetroleum.com).

Any forward-looking information concerning prospective exploration, results of operations, financial position, production, expectations of capital expenditures, cash flows and future cash flows or other information described above that is based upon assumptions about future results, economic conditions and courses of action are presented for the purpose of providing readers with a more complete perspective on Oryx Petroleum's present and planned future operations and such information may not be appropriate for other purposes and actual results may differ materially from those anticipated in such forward-looking information. In addition, included herein is information that may be considered financial outlook and/or future-oriented financial information. Its purpose is to indicate the potential results of Oryx Petroleum's intentions and may not be appropriate for other purposes.

Readers are strongly cautioned that the above list of factors affecting forward-looking information is not exhaustive. Although OPCL believes that the expectations conveyed by the forward-looking information are reasonable based on information available to it on the date such forward-looking information was made, no assurances can be given as to future results, levels of activity and achievements. Readers should not place undue importance or reliance on the forward-looking information and should not rely on the forward-looking information as of any date other than the date hereof. Further, statements including forward-looking information are made as at the date they are given and, except as required by applicable law, Oryx Petroleum does not intend, and does not assume any obligation, to update any forward-looking information, whether as a result of new information or otherwise. If OPCL does update one or more statements containing forward-looking information, it is not obligated to, and no inference should be drawn that it will make additional updates with respect thereto or with respect to other forward-looking information. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



## Glossary and Abbreviations

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The following abbreviations and definitions are used in this MD&A:

### **AGC**

Agence de Gestion et de Cooperation, an inter-governmental agency established in 1993 to manage and administer petroleum and fishing activities in the maritime zone between Senegal and Guinea Bissau

### **AOG**

The Addax and Oryx Group PLC

### **bbbl**

Barrel(s) of oil

### **bbbl/d**

Barrel(s) of oil per day

### **Carried Cost**

Costs related to the Group's funding another party's share of costs, by agreement, in excess of the Group's Participating Interest. Carried Costs are typically recovered through Cost Oil

### **Common Shares**

Common shares of the Company

### **Company**

Oryx Petroleum Corporation Limited

### **Contractor**

An oil company operating in a country under a PSC on behalf of the host government, for which it receives either a share of production or a fee

### **Cost Oil**

The portion of oil sold used to reimburse the Contractor for exploration, development, and operating costs

### **Cost Pool**

Costs incurred to explore and/or develop a License Area to be recovered as Cost Oil through future oil sales

### **Farm-in**

To acquire an interest in a license from another party

### **G&A**

General and administration

### **Gross**

In respect of reserves, resources, future net revenue, production, sales, area, capital expenditures or operating expenses, the total reserves, resources, future net revenue, production, sales, area, capital expenditures or operating expenses, as applicable, attributable to either (i) 100% of the License Area or field; or (ii) the Group's working interest in the License Area or field, as indicated, prior to the deductions specified in the applicable PSC, REC or fiscal regime for each License Area.

### **IAS**

International Accounting Standards

### **IFRS**

International Financial Reporting Standards

### **KRG**

Kurdistan Regional Government of Iraq

### **License Area**

Area of specified size, which is licensed to a company by a government for the production of oil and gas

### **Loan Facility**

A committed and unsecured term loan facility agreement that the Group entered into with a subsidiary of its indirect controlling shareholder AOG. Refer to Liquidity and Capital Resources section

### **Operator**

A company that organises the exploration and productions programs in a License Area on behalf of all the interest holdings in the license

### **Participating Interest**

The Group's current interest in an applicable License Area

### **PP&E**

Property, plant and equipment

### **Profit Oil**

Production remaining after contractual Royalties and Cost Oil, which is split between the government and the Contractors according to the prevailing contract terms in the PSC

### **Production Sharing Agreement (PSA) / Production Sharing Contract (PSC)**

A contractual agreement between a Contractor and a host government, whereby the Contractor bears certain defined exploration costs, risks, and development and production costs in return for a stipulated share of the production resulting from this effort

### **Reserves**

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology;
- specified economic conditions, which are generally accepted as being reasonable

### **Royalty**

All remittances to governments who are party to the applicable PSCs/PSAs that are directly attributable to the sale of oil and natural gas products during the reporting period including the government share of Profit Oil described above, except for income taxes

### **Working Interest or WI**

The Group's interest in an applicable License Area, assuming the exercise of back-in rights or options