Sea Dragon Energy Inc.

"An Exploration Stage Corporation"

As at June 30, 2008

(Unaudited)

Sea Dragon Energy Inc.
"An Exploration Stage Corporation"
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
(Unaudited)

		June 30, 2008		December 31, 2007
ASSETS				
Current				
Cash	$	19,060	$	4,451,672
GST recoverable		29,764		36,950
Amount receivable		6,250		-
		55,074		4,488,622
Deposit		48,500		-
Amounts receivable (Note 7)		-		671,256
Deferred asset – IPO cost (Note 11a)		307,265		-
Deposit - Letter of Guarantee (Note 6)		3,539,811		-
Resource property acquisitions and deferred exploration costs (Note 6)		7,486,686		3,029,254
	$	11,437,336	$	8,189,132
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	397,341	$	290,816
Convertible debentures (Note 8)		7,500,000		5,939,568
Cash received for debentures to be issued (Note 8)		-		605,401
Due to related parties (Note 7)		13,380		2,544
		7,910,721		6,838,329
Commitments and contingencies (Note 10)				
SHAREHOLDERS' EQUITY				
Common stock (Note 9)		5,607,679		1,947,679
Contributed surplus (Note 8)		412,000		360,599
Options and warrants to purchase common stock (Note 9)		731,994		667,134
Warrants to be issued (Note 8)		-		61,560
Deficit accumulated during exploration stage		(3,225,058)		(1,686,169)
		3,526,615		1,350,803
	$	11,437,336	$	8,189,132

Approved by the Directors:

" David Thompson" (Signed)
David Thompson

" Parvez Tyab" (Signed)
Parvez Tyab

The accompanying notes are an integral part of these financial statements.

Sea Dragon Energy Inc.

"An Exploration Stage Corporation"

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007	Cumulative Period from Inception (March 28, 2006) to June 30, 2008
Expenses					
General and administrative (Note 4)	$ 421,059	$ 142,982	$ 717,282	$ 280,458	$ 1,689,595
Foreign exchange loss (gain)	52,802	(40,311)	(11,616)	(30,907)	(7,674)
Interest expense (Note 8)	25,000	-	902,262	-	1,178,911
Loss before other items	(498,861)	(102,671)	(1,607,928)	(249,551)	(2,860,832)
Other income (expense)					
Interest and other income	40,553	663	69,039	5,360	96,502
Loss on settlement of lawsuit	-	-	-	-	(460,728)
Net loss and Comprehensive loss for the period	$ (458,308)	$ (102,008)	$ (1,538,889)	$ (244,191)	$ (3,225,058)
Basic and diluted loss per share	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.01)	
Weighted average common shares outstanding	58,581,566	40,428,049	49,714,533	38,743,384	

The accompanying notes are an integral part of these financial statements.

Sea Dragon Energy Inc.
"An Exploration Stage Corporation"
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)
(Unaudited)

	Six Months ended June 30, 2008	Year ended December 31, 2007	Cumulative Period from Inception (March 28, 2006) to June 30, 2008
Share capital (Note 9)			
Balance, beginning of period	$ 1,947,679	$ 1,237,834	$ -
Shares issued for:			
- Private placements	-	295,773	711,386
- For cash	-	-	759,328
- Acquisition of 40% interest in EWA Concession	-	-	62,893
- Acquisition of Egypt Oil Holdings	3,660,000	-	3,660,000
- Settlement of lawsuit	-	414,072	414,072
Balance, end of period	$ 5,607,679	$ 1,947,679	$ 5,607,679
Contributed surplus			
Balance, beginning of period	$ 360,599	$ -	$ -
Convertible debentures (Note 8)	51,401	360,599	412,000
Balance, end of period	$ 412,000	$ 360,599	$ 412,000
Options and warrants to purchase common stock			
Balance, beginning of period	$ 667,134	$ 362,845	$ -
Finder's fee options (Note 9)	-	35,532	73,993
Convertible debentures (Note 8)	64,860	67,023	131,883
Private placements (Note 9)	-	201,734	526,118
Balance, end of period	$ 731,994	$ 667,134	$ 731,994
Warrants to be issued			
Balance, beginning of period	$ 61,560	$ -	$ -
Convertible debentures (Note 8)	(61,560)	61,560	-
Balance, end of period	$ -	$ 61,560	$ -
Shares to be issued			
Balance, beginning of period	$ -	$ 18,000	$ -
Private placements (Note 9)	-	(18,000)	-
Balance, end of period	$ -	$ -	$ -
Deficit Accumulated in the Exploration Stage			
Balance, beginning of period	$ (1,686,169)	$ (737,243)	$ -
Net loss	(1,538,889)	(948,926)	(3,225,058)
Balance, end of period	$ (3,225,058)	$ (1,686,169)	$ (3,225,058)
Total Shareholders' Equity	$ 3,526,615	$ 1,350,803	$ 3,526,615

The accompanying notes are an integral part of these financial statements.

Sea Dragon Energy Inc.
"An Exploration Stage Corporation"
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Three months Ended June 30, 2008	Three months Ended June 30, 2007	Six months Ended June 30, 2008	Six months Ended June 30, 2007	Cumulative Period from Inception (March 28, 2006) to June 30, 2008
Cash provided by (used in)					
Operating Activities					
Net loss for the period	$ (458,308)	$ (102,008)	$ (1,538,889)	$ (244,191)	$ (3,225,058)
Add non-cash items:					
Loss on settlement of lawsuit	-	-	-	-	460,728
Accretion of debenture	25,000	-	902,262	-	1,178,911
Changes in non-cash working capital					
Accounts payable and accrued liabilities	380,406	(8,359)	279,922	4,498	353,984
Amount receivable	5,000	-	(6,250)	-	(6,250)
Prepaid expenses	2,999	-	-	(298)	-
GST recoverable	(16,014)	2,306	7,186	(1,221)	(29,764)
	(60,917)	(108,061)	(355,769)	(241,212)	(1,267,449)
Financing Activities					
Bank overdraft	-	(718)	-	(718)	-
Due to related parties	11,001	(21,188)	10,836	(144,098)	13,380
Deferred asset – IPO cost	(192,919)	-	(307,265)	-	(307,265)
Proceeds from issuance of convertible debt, net of issuance costs	-	-	709,571	-	6,861,673
Cash received for debentures to be issued	-	-	(605,401)	-	-
Proceeds from issuance of shares, net of share issuance costs	-	-	-	515,040	2,070,825
	(181,918)	(21,906)	(192,259)	370,224	8,638,613
Investing Activities					
Cash held in trust	-	291,897	-	998,120	-
Cash acquired on acquisition (Note 5)	364,769	-	364,769		364,769
Deposit	(46,000)	-	(48,500)	-	(48,500)
Amounts receivable	8,770	-	(93,520)	-	(764,776)
Deposit - Letter of Guarantee	42,361	-	(3,539,811)	-	(3,539,811)
Resource properties acquisitions and deferred exploration costs	(393,037)	(301,408)	(567,522)	(1,004,650)	(3, 363,786)
	(23,137)	(9,511)	(3,884,584)	(6,530)	(7,352,104)
Net increase (decrease) in cash	(265,972)	(139,478)	(4,432,612)	122,482	19,060
Cash, beginning of period	285,032	261,960	4,451,672	-	-
Cash, end of period	$ 19,060	$ 122,482	$ 19,060	$ 122,482	$ 19,060
Supplemental Information					
Interest and taxes paid	$ -	$ -	$ -	$ -	$ -
Non-cash investing and financing activities:					
- Stock options granted – Agent (Note 9)	$ -	$ -	$ Nil-	$ 51,520	$ 73,993
- Common shares issued – Resource Property (Note 5)	$ 3,660,000	$ -	$ 3,660,000	$ -	$ 3,722,893
- Forgiveness of Mogul Receivable – Resource Property (Note 5)	$ 764,776	$ -	$ 764,776	$ -	$ 764,776
- Common shares issued – Settlement of lawsuit (Note 9)	$ -	$ -	$ -	$ 414,072	$ 414,072

The accompanying notes are an integral part of these financial statements.

Sea Dragon Energy Inc.

"An Exploration Stage Corporation"
Notes to the Consolidated Financial Statements
(Unaudited)

NOTE 1 – Basis of Presentation and Nature of Operations and Ability to Continue as a Going Concern

a. Basis of Presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using standards for interim financial statements and do not contain all of the information required for annual statements. These statements follow the same accounting policies and methods of application as the most recent annual financial statements, except as described in Note 2 below. Accordingly, these unaudited interim financial statements should be read in conjunction with the most recent annual financial statements of the Company. All dollar amounts are disclosed in Canadian dollars unless otherwise noted.

b. Organization

Sea Dragon Energy Inc. (the "Company" or "Sea Dragon") was incorporated, under the *Canada Business Corporations Act* on March 28, 2006 to engage in the business of oil and gas exploration. The Company's planned business operations involve acquiring low entry cost exploration prospects, as measured on a dollar per barrel for proven and potential reserves in proximity to producing oil fields, and exploring for oil and gas reserves. Since inception, the Company's business activities have included incorporating and organizing the Company, financing and acquiring a 75% working interest and exploration activities in the East Wadi Araba area of the Gulf of Suez oil and gas concession (the "Concession Agreement" or "Egyptian Concession") (Note 5).

The recoverability of amounts shown as resource properties acquisition and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability to obtain necessary financing to complete its share of the development costs and the ability to drill for, recover, transport and sell any gas or oil from the concession subject to the Company's drilling rights. The accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. The use of such principles may not be appropriate because, as of June 30, 2008, there was significant doubt that the Company would be able to continue as a going concern.

As at June 30, 2008, the Company had an accumulated deficit of $3,225,058. In addition, due to the nature of the oil and gas exploration business, the exploration and development of oil and gas reserves requires significant expenditures prior to the commencement of production. To date, the Company has financed its activities through the issuance of equity securities and debt financing. On July 15, 2008, the Company successfully closed its initial public offering ("IPO") of Common Shares, raising net proceeds of 32,726,500.

Although there is no assurance that the Company will be successful in these actions, management believes that it will be able to secure the necessary financing to enable the Company to continue as a going concern. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

In order to drill for, recover, transport and sell any oil and gas from the concession subject to the Company's drilling rights, the Company may be required to obtain additional licenses and permits and enter into agreement with various landowners and/or government authorities. These licenses, permits and agreements could contain restrictions and require payment of development and exploration fees and royalties. The amount of any such fees and royalties cannot be estimated at this time, but could be material.

NOTE 2 – Adoption of New Accounting Standards and Future Accounting Changes

Effective January 1, 2008, the Company adopted three new Canadian Institute of Chartered Accountants ("CICA") accounting standards: (a) Handbook Section 1535, *Capital Disclosures*; (b) Handbook Section 3862, *Financial Instruments – Disclosures*; and (c) Handbook Section 3863, *Financial Instruments –Presentation* . The main requirements of these new standards and the resulting financial statement impact are described below.

a. Capital Disclosures, Section 1535:

This section establishes standards for disclosures about an entity's capital and how it is managed. Under this standard the Company is required to disclose qualitative information about its objectives, policies and processes for managing capital; to disclose quantitative data about what it regards as capital; and to disclose whether an entity has complied with any externally imposed capital requirements and, if not, the consequences of such noncompliance.

The adoption of this standard required additional disclosure (Note 3) but had no effect on the financial statements of the Company.

b. Financial Instruments, Disclosure, Section 3862:
This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

The adoption of this standard required additional disclosure (Note 3) but had no effect on the financial statements of the Company.

c. Financial Instruments –Presentation, Section 3863:
This Section establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of this standard required additional disclosure (Note 3) but had no effect on the financial statements of the Company.

d. Other Future Accounting Changes:
The CICA Accounting Standards Board has adopted the following new or amended Handbook Sections:

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, ("Section 3064") replacing Section 3062, *Goodwill and other intangible assets* ("Section 3062") and Section 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with the new Section 3064. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009.

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements has yet to be determined.

NOTE 3 – Financial Risk Management

a. Capital Management:

The Company's objective when managing its capital is to ensure it has sufficient capital to maintain its ongoing operations, safeguard the Company's ability to continue as a going concern in order to pursue the development of its working interest in the Concession Agreement (Note 6) and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its interest in the Concession Agreement.

The Concession Agreement in which the Company has a 75% working interest is in the exploration stages and the Company is dependent on external financing to funds its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2008 compared to the year ended December 31, 2007. The Company is not subject to externally imposed capital requirements.

b. Financial Risk Factors:

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, commodity price risk and foreign exchange risk.

Credit Risk
The Company is exposed to credit risk in relation to its cash and amounts receivable. The Company maintains cash with a Canadian bank and therefore the Company considers cash to have negligible credit risk. The Company's amount receivable was due from a related party and upon the closing of the acquisition of Egypt Oil Holding Ltd. (“EOH”) subsequent to June 30, 2008, the receivable was eliminated as part of the allocation of the purchase price among the fair value of the assets and liabilities acquired (Note 5). Accordingly, the amount receivable has negligible credit risk.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Company’s reputation. The Company monitors cash flows to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Management believes that future cash flows from the IPO financing that closed subsequent to period end (note 11a) will be adequate to support these financial liabilities.

Commodity Price Risk
The ability of the Company to develop its interest in the Concession Agreement (Note 6) is directly related to the market price of oil and gas. Given that the current oil and gas activities are in the exploration stage and that no oil and gas reserves have been identified, the Company does not use financial derivatives or physical delivery sales contracts and accordingly, commodity price risk is negligible.

Foreign Currency Exchange Rate Risk
The Company transacts business in both Canada and Egypt and purchases goods and services denominated in Canadian and US Dollars. As a result, the Company has foreign exchange transaction and translation exposure. US dollar denominated transactions are translated into CDN$ at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Translation gains and losses are recognized in income in the current period. The Company advances funds to Dover (the current operator of the Egyptian Concession) to the extent necessary to carry out exploration activities thus monetary assets and liability balances are minimal. As such, the Company has minimal exposure to foreign currency exchange rate fluctuations at this time.

NOTE 4 – General and Administrative Expenses

General and administrative expenses are comprised of the following:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007	Cumulative Period from Inception (March 28, 2006) to June 30, 2008
Wages	$ 89,200	$ 65,936	$ 177,110	$ 74,057	$ 526,383
Professional fees	185,810	25,878	297,176	94,677	681,518
Travel and promotion	65,167	27,948	92,023	54,468	243,717
Letter of Guarantee	15,955	-	69,323	-	69,323
Other expenses	64,927	23,220	81,650	57,256	168,654
Total general and administrative expenses	$ 421,059	$ 142,982	$ 717,282	$ 280,458	$ 1,689,595

Other expenses includes rent expense, telephones and internet expenses, postage and courier, filing and transfer agent fees, insurance, bank charges and other miscellaneous expenses not categorized elsewhere. Letter of Guarantee (Note 6) expenses include set-up and quarterly maintenance fees.

NOTE 5 – Significant Acquisition

On March 23, 2008, Sea Dragon entered into a share exchange agreement to acquire all of the outstanding common shares of EOH, a company incorporated under the Canadian Business Corporations Act on October 22, 2007. This acquisition closed on April 24, 2008. The purchase consideration reflected in the table below has been calculated using a common share price of $0.1525 per Sea Dragon share, which is the estimated fair value of Sea Dragon's shares based on the most recently completed private placement transactions (less imputed value of warrants using the Black-Scholes option pricing model) prior to the share exchange with EOH as described in note 8 to Sea Dragon's audited financial statements for the year ended December 31, 2007.

EOH acquired, through sale and purchase agreements, a 15% interest in the Concession Agreement from Dover, Brokton International Ltd. and Robert Salna for 5,000,000 shares of EOH's common stock and a 20% interest in the Concession Agreement from Mogul Energy International, Inc. ("Mogul" – a company with whom a director of the Company is a significant shareholder) for 4,000,000 shares of EOH common stock, the assumption of certain liabilities (including a $764,776 payable to Sea Dragon (Note 7)) and CDN$100,000; thereby, giving EOH a 35% interest in the Concession Agreement.

Sea Dragon accounted for the purchase of EOH as a direct acquisition of a 35% interest in the Concession Agreement. The primary reason being the Company considers EOH to be an intermediary because EOH incurred minimal costs to acquire its 35% interest in the Concession Agreement. Furthermore, at the date of the transaction, there were no reserves attributable to the Concession Agreement therefore, the acquisition was not accounted for as a business combination. The purchase of the 20% interest from Mogul is recorded using the exchange value, being the value established and agreed to between the parties and consistent with the value determined for the acquisition of the 15% carried interest.

As described in note 7, a $764,776 receivable was owed to Sea Dragon by Mogul as it represents cash calls on the Concession Agreement during fiscal 2007 and in fiscal 2008 (to the date of acquisition) that were paid on Mogul's behalf by Sea Dragon. This liability was assumed by EOH upon it's acquisition of a 20% interest in the Concession Agreement from Mogul. Since it represents expenditures on the Concession Agreement, and will eliminate upon consolidation, the receivable has been included in the purchase price below.

The allocation of the purchase price is summarized in the table below:

Purchase price	
24,000,000 Sea Dragon common shares @$0.1525 per share	$ 3,660,000
Amount receivable from Mogul	764,776
	4,424,776
Fair value of EOH net assets to be acquired	
Cash	(364,769)
Accounts payable and accrued liabilities	20,000
Resource property acquisitions and deferred exploration costs	$ 4,080,007

NOTE 6 - Resource Property Acquisition and Deferred Exploration Costs

The Company is in the exploration stages of its planned principal operations in Egypt. Acquisition costs incurred to acquire a 75% working interest in the Concession Agreement are capitalized on the balance sheet to June 30, 2008 and consist of the following:

		June 30, 2008		December 31 2007
Opening balance	$	3,029,254	$	223,889
Plus:				
Deferred exploration costs		4,457,432		2,805,365
	$	7,486,686	$	3,029,254

The following disclosure should be read in conjunction with the most recent annual financial statements of the Company. Dover has, pursuant to the terms of the Concession Agreement for Petroleum Exploration and Exploitation (the "Concession Agreement") between Dover, ARE and the EGPC dated July 18, 2002, certain rights and interests for the exclusive exploitation of petroleum and natural gas in and throughout the Egyptian Concession.

Through a series of agreements dated (i) August 6, 2005 (the “Dover Farmout Agreement”) between Dover, Mogul Energy Ltd. (“MEL” – a company owned by a director of Sea Dragon), Transpacific Petroleum Corp. and Dr. Ghareeb Awad; (ii) August 7, 2005 between Transpacific and MEL (the “August 7th Agreement”); (iii) September 29, 2005 (the “September 29th Farmout”) between MEL and Mogul; (iv) October 1, 2005, between MEL Woodgreen International Holdings Ltd. (“Woodgreen” – a Company owned by the President of Sea Dragon) and Yellowfern Continental S.A. (“Yellowfern”); (v) April 5, 2006, between MEL, Woodgreen,Yellowfern and Sea Dragon, the Company was assigned a 40% working interest in the Concession Agreement; and (vi) April 13, 2006, the ownership interests in the Egyptian Concession as of December 31, 2007 were as follows:

Sea Dragon	40% working-interest
Mogul	20% working-interest
Transpacific	25% carried-interest
Dover	15% carried-interest

On January 24, 2007, Sea Dragon and Mogul entered into an agreement wherein they shall be jointly liable to the ARE and EGPC for the performance obligations under the Concession Agreement. These obligations include incurring exploration costs of US$2 million for one well by July 17, 2007 and US$4.5 million for two additional wells by July 17, 2009 (See Extension Agreement below).

On January 24, 2007 an Extension Agreement, subject to approval from the ARE and EGPC, allowed for Sea Dragon to complete the first well by July 17, 2007 and provided until July 17, 2009 to complete the second and third wells.

On July 12, 2007, the Company was notified by the project operator, Dover, that it had started drilling the EWA-4X well at the EWA Concession located in the Gulf of Suez, Egypt. The deviated EWA-4X well was drilled from an onshore surface location, to test an offshore structure, targeting light oil in the Raha and Nubia formations. A six month extension was granted to the Operator to complete the well. On Sept 18, 2007 the company received notification that the well did not contain any economically recoverable hydrocarbons and was subsequently wire-line-logged, plugged and abandoned.

Deferred exploration costs of $7,484,686 (2007 – $3,029,254), primarily consist of the acquisition of EOH (Note 5), materials and drilling, geological and geophysical consulting fees and general and administrative expenses related to exploration activities in Egypt. No interest costs were capitalized during the six months ended June 30, 2008 (June 30, 2007 - $nil) while general and administrative costs of approximately $168,000 (June 30, 2007 - $274,000) were capitalized during the period.

On January 5, 2008 Dover Investments Ltd., the current operator on the EWA Concession, entered into the Second Extension for the EWA Concession and the relinquishment of 25% of the original Concession. The extension was pursuant to Sea Dragon putting in place a Letter of Guarantee of US$3,483,114 (CDN$3,524,215). This was completed on January 15, 2008 within the time allowable by EGPC. As a result, the Extension has been granted. The funds held as security for the Letter of Guarantee are invested in a thirty day rolling term deposit currently bearing interest at approximately 3% and expires on January 17, 2010 The Letter of Guarantee may be reduced significantly based on the EPGC audit of the costs incurred on the EWA-4X well. The EGPC audit is yet to be completed. As at June 30, 2008 the Letter of Guarantee, including interest, was US$3,540,196 (CDN$3,539,811).

The Company's deed of assignment was granted by the ARE on March 23, 2008 for a 75% interest in the Concession Agreement. As a result, the Company is now responsible for 100% of the costs for the next two wells under the Concession Agreement.

In the event of a commercial discovery (as defined in the Concession Agreement), Sea Dragon is entitled to recover all approved costs, expenses and expenditures in respect of the exploration, development and related operations out of its 75% share of 30% of all production revenue to the concession holder.

The remaining 70% interest in the petroleum produced will be divided between the EGPC and the parties to the Farmout Agreement as follows:

Crude Oil and Gas	EGPC	Parties to Farmout Agreement
Up to 25,000 BOPD	75%	25%
Greater than 25,000 BOPD	80%	20%

NOTE 7– Related Party Transactions

The Company owes officers, directors and consultants $13,380 (2007 - $2,544) for out of pocket expenses, accrued payroll and for administration, travel and promotion. This amount is due to directors and is non-interest bearing, unsecured and repayable on demand.

The amount receivable was due from Mogul (a company with whom a director of the Company is a significant shareholder). It represented cash calls Mogul was required to make to fulfill its 1/3 working interest in the exploration program on the Egyptian Concession in fiscal 2007 and to April 23, 2008. These cash calls were provided by Sea Dragon on Mogul's behalf. The amount receivable is non-interest bearing, unsecured, and has no other specific terms or conditions. Due to the acquisition of Mogul's interest in the Concession Agreement by Egypt Oil Holdings and Sea Dragon's subsequent acquisition of Egypt Oil Holdings on April 23, 2008 (Note 5), the receivable, with a balance of $764,776 at that time, became an inter company balance that has been eliminated upon consolidation.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

NOTE 8 – Convertible Debentures

On November 26, 2007, the Company entered into a non-brokered financing of unsecured convertible debentures (the "debentures"). The financing closed in three tranches and raised total gross proceeds of $7,500,000. The debentures are non-interest bearing and were to mature on March 31, 2008. Subject to certain conditions, the lenders can convert in whole or in part the debentures into common shares of the Company at a conversion price of $0.35 per share. In addition, subject to certain events occurring on or before the maturity date, the outstanding debentures are automatically convertible into common shares of the Company at the same conversion price.

In connection with the financing the Company has agreed to pay cash commission equal to 7% of the gross proceeds raised on the financing and grant compensation warrants to purchase 7% of the number of common shares issuable by the Company upon conversion of the debenture. The warrants are exercisable at $0.35 per share and expire 18 months from the date that the Company is listed on the TSX Venture Exchange (the "Exchange").

The first tranche of the financing closed on November 26, 2007 and raised gross proceeds of $5,962,599. The second tranche closed on November 30, 2007 and raised gross proceeds of $750,000.

In accordance with the requirements of CICA handbook S3855, *Financial Instruments – Recognition and Measurement*, the debentures have been designated as other liabilities. Furthermore the proceeds raised from the issuance of the debentures were allocated between the liability component (the debenture) and the equity component (the conversion feature) using the residual method whereby the Company determined the fair value of the debentures and allocated the residual to the conversion feature.

The fair value of tranches 1 and 2 of the debenture, being the present value of the repayment obligation, was estimated using a discount factor of 16%. At the date of issuance of tranche 1 and tranche 2 the Company allocated $6,352,000 to the debentures and $360,599 to the conversion feature (with an offsetting credit to contributed surplus). The commission paid on the issuance of the debentures, in the amount of $470,182 and legal fees in the amount of $90,315 have been deducted from the value of the proceeds.

A total of 1,342,521 compensation warrants were granted upon closing the first and second tranches of the debenture financing. The fair value of the broker warrants, estimated to be $128,583, was calculated using the Black-Scholes option pricing model using the following assumptions: average risk free rate – 3.95%, expected life – 2.09 years, expected volatility 112% and expected dividend yield of 0.00%. Of the compensation warrants granted, a total of 642,689 compensation warrants with an estimated fair value of $61,560 were not issued at December 31, 2007, and were recorded as warrants to be issued. These warrants were issued on January 15, 2008 and the fair value was reclassified to options and warrants to purchase common shares.

Prior to the closing of the third tranche of the debenture, the Company received gross proceeds of $605,401. As the debentures were not issued prior to December 31, 2007, the cash received was deferred to the balance sheet as "Cash received for debentures to be issued". On January 15, 2008 the third tranche closed and the cash received was reclassified to convertible debenture. The remaining gross proceeds received on the tranche 3 debentures were $182,000. In connection with the closing of the third tranche, the Company granted an additional 36,400 compensation warrants. The warrants are exercisable at $0.35 per share and expire 18 months from the date the Company is listed on the TSX Venture Exchange.

The fair value of tranche 3 of the debenture, being the present value of the repayment obligation, was estimated using a discount factor of 16%. At the date of issuance the Company allocated $761,000 to the debentures and $26,401 to the conversion feature (with an offsetting credit to contributed surplus).

The fair value of the additional compensation warrants, estimated to be $3,300, was calculated using the Black-Scholes option pricing model using the following assumptions: average risk free rate – 3.78%, expected life - 1.95 years. Expected volatility 112% and expected dividend yield of 0.00%.

The amount allocated to the conversion feature and transaction costs (being legal fees of $19,810, additional cash commission of $54,720, and the fair value of the additional compensation warrants) represent a discount on the debentures which will be accreted to income over the term of the debentures using the effective interest rate method.

On March 31, 2008, the maturity date of the convertible debentures was extended from March 31, 2008 to June 30, 2008 as agreed to by lenders holding at least two thirds of the aggregate principal amount of the outstanding debentures. All other terms and conditions attached to the debentures remained unchanged. On June 19, 2008, pursuant to a second debenture amending agreement, the convertible debentures were further extended to July 31, 2008 as agreed to by lenders holding at least two thirds of the aggregate principal amount of the outstanding debentures.

Per EIC-88, "Debtor's Accounting for a Modification or Exchange of Debt Instruments" the extensions of the debentures at March 31 and June 19, 2008 were considered modifications of the debt. The fair value of the repayment obligation, being the present value of the future principal payment was estimated at each extension date using a discount factor of 16%. As a result, an additional $25,000 and $nil respectively was allocated to the conversion option (with an offsetting credit to contributed surplus) on the date of each extension.

The convertible debentures and debt discount are summarized as follows:

	Face Amount	**Discount**	**Carrying Value**
Convertible debentures at December 31, 2007	$6,712,599	$773,031	$5,939,568
Convertible debentures issued	787,401	104,231	683,170
Accretion of debt discount	-	(877,262)	877,262
Extension of debenture to June 30, 2008	-	25,000	(25,000)
Accretion of debt discount	-	(25,000)	25,000
Convertible debentures at June 30, 2008	$7,500,000	$ -	$7,500,000

During the six months ended June 30, 2008, the Company recorded an accretion expense of $902,262 (2007 - $nil) respectively on this discount.

Subsequent to June 30, 2008, upon closing of the initial public offering (Note 11a) the debentures were converted into 21,428,571 common shares.

NOTE 9 – Share Capital

Authorized

Unlimited common shares with no-par value.

Unlimited preference shares with no-par value; none are issued or outstanding at June 30, 2008 and December 31, 2007.

Issued and outstanding:

Details	Number of Shares		Amount
Balance at December 31, 2006	34,632,500		1,237,834
Shares issued for settlement of lawsuit at $0.138 per share	3,000,000		414,072
Units issued for cash at $0.20, less $5,818 for estimated value of the share purchase warrants	90,000		12,182
Units issued for cash at $0.20 less $54,800 in finder's fees, $34,366 in legal fees and $35,532 for finder's fee options and $179,929 for the estimated fair value of the share purchase warrants	2,775,000		250,374
Units issued for cash at $0.20 less transfer agent costs of $795 and the estimated fair value of $15,988 of the share purchase warrants	250,000		33,217
Balance, December 31, 2007	40,747,500	$	1,947,679
Shares issued to acquire Egypt Oil Holdings (Note 5)	24,000,000		3,660,000
Balance, June 30, 2008	64,747,500		5,607,679

On January 24, 2007 Dr. Awad, Transpacific and Sea Dragon reached a settlement agreement with respect to the statement of claim. Under the terms of the settlement agreement, the Company issued Dr. Awad 1,500,000 shares and Transpacific 1,500,000 common shares. The fair value of the shares granted to Dr. Awad and Transpacific was $414,072 determined using the average fair value of common shares issued during the period ended December 31, 2006. This amount was reclassified from accrued liabilities to share capital during the period ended June 30, 2007. The fair value of common shares used to record this share issuance was estimated by taking the $0.20 unit price less the estimated value of the warrants, resulting in a share component of $0.138 per share.

On March 8 and March 16, 2007, the Company completed private placements for gross proceeds of $555,000 through the issuance of 2,775,000 units consisting of one common share and one half of a share purchase warrant at CDN$0.20 a unit. Each whole Warrant entitles the holder to acquire one share at a price of $0.30 per share, at any time on or before the first Business Day that is two years after the initial listing date of the shares on the Exchange; provided that, if at any time following the expiration of any hold period on the Warrants imposed by the Exchange or by statute, the closing price of the Issuer's common stock on the Exchange is equal to or greater than $0.45 per share for 20 consecutive trading days, the Issuer may give Notice in writing to the holders of the Warrants that the expiry date of the Warrants is being shortened to 30 days from the date of such Notice. The fair value of the warrants was estimated to be $179,929 using the Black-Scholes option pricing model using the following assumptions: average risk free rate – 4.01%, expected life – 3.30 years, expected volatility 112% and expected dividend yield of 0.00%.

In connection with this issuance, a commission equal to $54,800 of the gross proceeds on the private placement was paid as a finder's fee. In addition, the finder's fee includes 274,000 compensation options entitling the holder to acquire from the issuer 274,000 common shares at any time prior to 4:00 p.m. (Pacific Standard Time) on the date that is two years following the date on which the issuers common shares are listed on the TSX on payment of $0.20 per share; provided that, if at any time following the expiration of any hold period on the shares imposed by the exchange or by statute, the closing price of the Issuer's common shares on the Exchange equal to or greater than $0.45 per share for 20 consecutive trading days, the Issuer may give Notice in writing to the holder of the Options that the expiry date of the Options is being shortened to 30 days from the date of such Notice. The fair value was calculated using the Black-Scholes option pricing model using the following assumptions: average risk free rate – 4.01%, expected life – 3.30 years, expected volatility 112% and expected dividend yield of 0.00%.

A further subscription for 250,000 units comprising 250,000 common shares worth $50,000 and 125,000 share purchase warrants with an estimated fair value of $15,988 was completed on April 18, 2007. In connection with subscription additional legal fees of $795 were paid. The fair value of the warrants was calculated using the Black-Scholes option pricing model using the following assumptions: average risk free rate – 4.18%, expected life – 3.20 years, expected volatility 112% and expected dividend yield of 0.00%.

On April 24, 2008 Sea Dragon and EOH, entered into a share exchange agreement whereby Sea Dragon issued to the shareholders of EOH, 24,000,000 common shares of the Company in exchange for all of the issued and outstanding common shares of EOH. EOH is now a wholly-owned subsidiary of the Company upon completion of the acquisition. Upon the execution of all the aforementioned Agreements Sea Dragon is the beneficial holder of a 75% working interest in the Concession Agreement (Note 6).

<u>Options</u>

The following finder's fee share purchase options were outstanding at June 30, 2008:

	Number of shares	Exercise Price	Expiry Date
Balance, January 1, 2007	255,000	$0.20	July 17, 2010
Issued during period	274,000	$0.20	July 17, 2010
Issued during period	1,342,521	$0.35	January17, 2010
To be issued (included in above)	(642,689)	$0.35	January 17, 2010
Balance, December 31, 2007	1,228,832		
Issued during the period	679,089	$0.35	January 17, 2010
Balance, June 30, 2008	1,907,921		

<u>Warrants</u>

The following share purchase warrants were outstanding at June 30, 2008:

	Number of shares	Exercise Price	Expiry Date
Balance, January 1, 2007	2,316,250	$0.30	July 17, 2010
Issued	1,557,500	$0.30	July 17, 2010
Balance, December 31, 2007 and June 30, 2008	3,873,750		

NOTE 10 – Commitments and contingencies

a. Commitments

On March 14, 2008 the company pledged $46,000 as security held for the corporate credit cards issued to various officers and directors to be used strictly for travel and promotion expenses..

b. Contingencies

On May 30, 2008 (as amended on June 30, 2008), a statement of claim (the "Claim") was filed in the province of British Columbia by Transpacific Petroleum Corp. and Ghareeb Awad (the "Plaintiffs") against the Minister of Petroleum – Egypt, Dover Investments Limited and the Company (the "Defendants"). The Plaintiffs allege, among other things, that the actions on behalf of the Defendants have resulted in Transpacific not being recognized for a 25% interest in the Concession Agreement. They seek injunctions and damages as compensation.

The Company strongly believes the Claim to be without merit and will vigoursly defend itself against this action. As an assessment of the likelihood of loss is indeterminable at this time, no provision has been made in these financial statements for this claim. Any such loss will be recognized in the period it becomes likely to occur.

NOTE 11 – Subsequent Events

a. Initial Public Offering

On February 12, 2008 the Company signed an engagement, as amended on March 27, 2008, with a lead agent to offer up to 66,666,666 common shares of the Company. Under the terms of the agreement, the agents agreed to obtain subscriptions for common shares upon and subject to the terms of the agency agreement. The offering closed on July 15, 2008, we issued a total of 58,333,334 common shares and raised net proceeds of $32,726,500, which included agents' closing costs of approximately $173,500 and the agents' commission of approximately $2,100,000 being 6% of the gross proceeds raised on the offering. Pursuant to the agency agreement, the Company has also agreed to grant compensation options to the agents entitling the agents to acquire, from the Company at $0.60 per share for a period of eighteen months after the common shares are listed on the TSX-V, a number of common shares equal to 6% of the number of common shares sold by the Company under the offering. As a result, the Company has granted 3,500,000 compensation warrants to the agent upon closing of the IPO. In addition, the Company has granted the agents an over-allotment option that allows the agent to offer additional common shares, equal to 15% of the number of common shares sold pursuant to the offering, at the offering price exercisable on or before the date that is 30 days following the closing date. The over-allotment was not been exercised.

Upon closing the IPO, the $7.5 million convertible debentures automatically converted into 21,428,571 common shares.

Legal costs associated with the Initial Public Offering (IPO) amounted to $307,265 for the period ended June 30, 2008 and have been recorded as a Deferred Asset on the Company's balance sheet. Upon the closing of the IPO the deferred asset will be charged against the share capital raised by the offer. These costs plus additional legal, agent and other closing costs through the closing date will be charged against the proceeds raised on the offering.

b. Stock Option Plan

On March 28, 2008, the board of directors adopted a stock option plan (the "Option Plan"). A number of common shares equal to 10% of the Company's outstanding common shares after completion of the offering, including the exercise of the Over-Allotment option will be reserved for issuance under the Option Plan

The Option Plan provides for the grant of options to purchase Common Shares to eligible directors, senior officers, employees and consultants of the Company or any of its affiliates ("Participants"). The exercise periods and vesting periods of options granted under the Option Plan are to be determined by the board of directors. The expiration of any option will be accelerated if the Participant's employment or other relationship with the Company terminates. The exercise price of an option is to be set by the board of directors at the time of grant but shall not be lower than the Market Price (as defined in the Option Plan) at the time of grant.

Any amendment to the Option plan would be subject to shareholder and regulatory approval.

Subsequent to June 30, 2008 the Company granted 4,200,000 stock options to certain directors and officers of the Company at an exercise price of $0.60 per share. The stock options vest in equal installments over a 3 year period. The options expire on July 16, 2013. The Company also granted 500,000 stock options at an exercise price of $0.60 per share to a third party in exchange for investor relation services. These options in equal installments over 3 years, the length of time in which the investor relations services are expected to be provided. These options also expire on July 16, 2013.

c. Escrow Agreement

As a condition of closing the offering (Note 11a), the common shares held directly or indirectly by the directors or officers of the Company and the common shares held by shareholders of the Company who purchased or acquired common shares of the Company more than a year prior to the offering ("Seed Shares") were placed into an escrow agreement (the "Directors, Officers and Seed Shareholders Voluntary Escrow Agreement") with an Escrow Agent so that ninety percent of the Seed Shares are held in escrow with the Escrow Agent. The escrowed shares will be released from escrow on the earlier of: (i) the Company announcing the drilling results of the second exploratory well drilled on the EWA Concession (Note 6); and (ii) July 31, 2009. Currently, there are 27,293,999 common shares are held under escrow pursuant to the Directors, Officers and Seed Shareholders Voluntary Escrow Agreement.

In accordance with the Canadian Securities Administrators Policy 46-201, Escrow for Initial Public Offerings (the “Policy”), the Principals (as defined below) of the Company are required to deposit into escrow equity securities and any securities that are convertible into equity securities of the Company, that are owned or controlled by the Principals pursuant to the terms of an escrow agreement between the Principals and the Escrow Agent (the “Escrow Agreement”). “Principals” include all persons or companies that will, on the completion of the Offering, fall into at least one of the following categories: (i) directors and/or senior officers of the Company or EOH; (ii) promoters of the Company; (iii) those who own and/or control more than 10% of the voting securities of the Company immediately after the completion of the IPO if they also have appointed or have the right to appoint one or more of the directors or senior officers of the Company; (iv) those who own and/or control more than 20% of the voting securities of the Company immediately after the completion of the IPO; and (v) associates and affiliates of any of the above.

Pursuant to the Escrow Agreement the Principals will deposit into escrow with the Escrow Agent their Common Shares (the “Escrowed Securities”) which will be subject to escrow.

Pursuant to the terms of the Escrow Agreement, 10% of the Escrowed Securities were released on July 17, 2008 (the date of receipt of notice from the Exchange confirming the listing of the Common Shares on the Exchange). The remaining 90% of the Escrowed Securities will be released from escrow in 15% tranches at six month intervals over a 36 month period following receipt of such notice. The above escrow release schedule is subject to acceleration in accordance with the Policy and the policies of the Exchange. Currently, there are 12,710,999 common shares held in escrow pursuant to the Escrow Agreement.