SEA DRAGON ENERGY INC.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

The following management's discussion and analysis (the "MD&A") dated November 27, 2008 is a review of results of operations and the liquidity and capital resources of the Company for its three and nine months ended September 30, 2008 relative to September 30, 2007. This MD&A should be read in conjunction with the interim consolidated financial statements for the three and nine months ended September 30, 2008 and 2007, the Company's audited financial statements as at and for the years ended December 31, 2007 and 2006 and the Company's long-form Prospectus filed on SEDAR at www.sedar.com. The financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain information contained herein is forward-looking and based upon assumptions and anticipated results that are subject to risks, uncertainties and other factors. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Cautionary Statement Regarding Forward-Looking Information". Unless otherwise noted all financial references in this MD&A are in Canadian Dollars. All references to "Sea Dragon" and the "Company" refer to Sea Dragon Energy Inc. and its subsidiaries.

Corporate Summary

The Company continues to develop its focus on the offshore Dahab prospects in the eastern part of the oil and gas concession granted with respect to the East Wadi Araba area located in the Gulf of Suez, Egypt (the "EWA Concession") in an area close to producing fields.

As of the 25th of November, 2008 the Company has commenced drilling operations of its Dahab North prospect on the EWA Concession using a jack-up drilling rig. A letter of guarantee was established on September 30, 2008 for US$6,500,000 (CDN$6,708,000) in accordance with the terms of the rig's lease and to secure the rig.

On July 15, 2008, the Company successfully closed its initial public offering ("IPO") of common shares, raising gross proceeds of $35,000,000. A total of 58,333,334 common shares were issued at a price of $0.60 per share. Net proceeds of the offering were $30,936,004, after deduction of the agents' closing costs, legal, accounting and other professional fees of approximately $1,410,185 and the agents' commission of approximately $2,100,000 being 6% of the gross proceeds raised on the offering. Transaction costs also include the 3,500,000 compensation options granted to the agents upon closing of the IPO. The fair value of the warrants was estimated to be $553,811 using the Black-Scholes option pricing model under the following assumptions: average risk free rate – 3.27%, expected life – 1.5 years, expected volatility 84.24% and expected dividend yield of 0.00%.

The shares were listed under the symbol SDX on the TSX Venture Exchange on July 17, 2008. In conjunction with the initial IPO the Company approved a stock option plan reserving for issuance common shares equal to 10% of the outstanding and issued shares from time to time. From this stock option plan the Management has granted to certain officers and directors stock options exercisable in the aggregate for 4,200,000 shares and to a consultant for investor relation services, stock options exercisable in the aggregate for 500,000 shares at an exercise price of $0.60 per share. The options expire on July 28, 2013.

The Company completed the convertible debenture offering (the "Convertible Debenture Offering") in November 2007 pursuant to which the Company issued convertible debentures in the aggregate principal amount of $7,500,000 (the "Convertible Debentures"). The Convertible Debentures were unsecured and non-interest bearing and were to mature on March 31, 2008 and were convertible into common shares of the Company at a conversion price of $0.35 per share. The maturity date was extended to June 30, 2008 pursuant to an amending agreement dated March 30, 2008 between the Company and a majority of the holders of the Convertible Debentures. On June 19, 2008, pursuant to a second debenture amending agreement, the Convertible Debentures were extended to July 31, 2008 as agreed to by lenders holding at least two thirds of the aggregate principal amount of the outstanding debentures. Upon closing the IPO, the $7.5 million aggregate principle amount Convertible Debentures automatically converted into 21,428,571 common shares in accordance with the terms of the debentures.

On March 23, 2008, the Company received approval from The Egyptian General Petroleum Corporation ("EGPC") and the Arab Republic of Egypt ("ARE") for its 75% working interest in the Concession Agreement. In exchange for this additional 35% working interest, through its acquisition of Egypt Oil Holdings Ltd. ("EOH"), the Company is responsible for 100% of the costs for the next two wells committed under the concession agreement.

Through a series of transactions, EOH acquired a 20% working interest from Mogul Energy International, Inc. ("MEII"), and a 15% carried interest from Dover Investments Ltd. ("Dover") and its related parties, in the Concession Agreement. On March 21, 2008, the Company entered into the share exchange agreement with EOH and shareholders of EOH (the "Vendors") to acquire all of the EOH common shares, thus acquiring EOH's 35% working interest in the Concession Agreement. This transaction closed on April 23, 2008. As consideration for the EOH shares, the Company issued 24,000,000 common shares of the Company to the shareholders of EOH. As a condition of the acquisition, each of the Vendors agreed to enter into a voluntary escrow agreement (the "EOH Voluntary Escrow Agreement"), pursuant to which 90 percent of the Company's common shares acquired by EOH and its shareholders were restricted from sale or transfer except upon the occurrence of certain events, and the occurrence of the earlier of: (i) the Company announcing the drilling results of its second exploratory well drilled on the EWA Concession; and (ii) July 31, 2009. Currently there are 21,600,000 common shares held in escrow pursuant to the EOH Voluntary Escrow Agreement.

The Company, in accordance with the terms of the Concession Agreement, requested Dover provide an election to EGPC that it would enter the Second Exploration Phase of the concession agreement (the "Concession Agreement"). On January 15, 2008, the Company put in place a letter of guarantee in the amount of $3,524,215 (the "BMO Letter of Guarantee") in favour of EGPC for this election and the election was granted. On August 19th, 2008, based on the EGPC audit for costs incurred on the EWA 4-X well, the Company subsequently reduced the amount of the BMO Letter of Guarantee to US$1,521,875 (CDN$1,570,575).

Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preference shares, issuable in one or more series.

The following table sets forth the designation and number or principal amount of : (a) each class and series of voting or equity securities of the Company for which there are securities outstanding; (b) each class and series of securities of Sea Dragon for which there are securities outstanding if the securities are convertible into, or exercisable or exchangeable for, voting or equity securities of the Company; and (c) each class and series of voting or equity securities of the Company that are issuable on the conversion, exercise or exchange of outstanding securities the Company.

Designation	**Authorized**	**As at November 25, 2008 (Unaudited)**	**As at September 30, 2008 (Unaudited)**	**As at December 31, 2007** (Audited)
Total Common Shares	Unlimited	144,509,405	144,509,405	40,747,500
Total Options and Warrants	N/A	13,981,671 (Note 1)	13,981,671 (Note 1)	5,745,271
Convertible Debenture	7,500,000	-	-	-

Note 1: Options and warrants expire as follows: (i) 3,500,000 on January 15, 2010, (ii) 1,378,921 on January 17, 2010, (iii) 4,402,750 on July 17, 2010 and (iv) 4,700,000 on July 28, 2013.

Dilution Impacts

On July 15, 2008 in connection with the closing of the Company's IPO, options purchase a total of 3,500,000 common shares of the Company were granted to the agent's pursuant to an agency agreement.

On July 28, 2008 options to purchase a total of 4,700,000 common shares of the Company were granted to certain officers, directors and a consultant of the Company.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Months Ended September 30, 2008 as Compared to the Three and Nine Months Ended September 30, 2007.

Selected Unaudited Financial Information for the Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

		Three months ended September 30, 2008 (Unaudited)		Three months ended September 30, 2007 (Unaudited)
Expenses				
Wages	$	145,716	$	6,128
Professional fees		225,063		94,844
Travel and promotion		76,671		268
Letter of Guarantee		49,222		-
Other expenses		145,005		18,011
Total	$	641,677	$	119,251

Total general and administrative expenses for the quarter increased to $641,677 from $119,251 in the comparable period in 2007. For the comparable period in 2007 the Company had very little cash and had suspended most cash outflows prior to issuing the convertible debentures in November of 2007. The increase in expenses was due to a number of factors including: (i) increase in legal costs classified as Professional fees which increased 137% compared to the same quarter in 2007. This increase primarily related to the IPO, audit and general advice and consultation. In addition, the Company incurred legal fees pertaining to the lawsuit initiated by Dr. Ghareeb Awad and Transpacific Petroleum Corp. ("Transpacific") with no comparable costs during the same quarter in the prior year; (ii) Wages increased 2,277% over the same period from 2007 due to pay increases to key officers of the Company as well as disbursements for directors fees; (iii) other expenses increased over the similar period in 2007 as the Company grew and continues to expand its operations in 2008. Increased costs include filing and transfer agent fees, telephone and internet charges and general office and administrative cost; (iv) Travel and Promotion expenses increased $76,403 over the comparable quarter in 2007 due to a substantial increase in activity including promotion of the Company in North America and overseas, increased operations in Egypt, and investigation of other potential development deals; and (v) BMO Letter of Guarantee expenses of $49,222 pertained to the quarterly maintenance fees for the BMO Letter of Guarantee with no such costs in the comparable period in the prior year. The Company also issued an additional letter of guarantee for $6,500,000 to secure the drilling rig in Egypt; application fees and associated charges also gave rise to the increase in these costs in the period.

Selected Unaudited Financial Information for the Nine Months Ended September 30, 2008 Compared to September 30, 2007

		Nine months ended September 30, 2008		Nine months ended September 30, 2007
Expenses				
Wages	$	322,826	$	80,185
Professional fees		522,239		189,521
Travel and promotion		168,694		54,736
Letter of Guarantee		118,545		-
Other expenses		226,655		75,267
Total	$	1,358,959	$	399,709

General and administrative expenses increased from $399,709 to $1,358,959 for the nine months ended September 30, 2008. The large increase was due to a number of factors including: (i) The Company issued two letters of guarantee resulting in the incursion of $118,545 in fees for application and set-up costs as well as quarterly maintenance fees. The BMO Letter of Guarantee was required in order for the Company to enter into the second Extension for the EWA Concession. The second letter of guarantee was required under the contract to secure the drilling rig for further operations in Egypt. No such expenses were incurred during the same period in the prior year; (ii) Wages increased from $80,185 in 2007 to $322,826 in 2008 primarily due to increased activity and pay increases to key personnel (these pay increases were initiated in November of 2007); and (iii) Professional fees, related to legal, accounting and consulting, increased over the same period in the prior year due to the IPO and legal fees pertaining to the lawsuit initiated by Dr. Ghareeb Awad and Transpacific. Accounting expenses have increased due to quarterly reviews related to the Company's public filings and consulting services have increased as the Company out-sources for services including investor relations, information technology, geological and engineering services.

The accretion of the debenture expense of $902,262 on the income statement was the accumulated expense related to the conversion feature of the debentures. The debt discount has been fully accreted and the Convertible Debentures are recorded at their full face value of $7,500,000 at June 30, 2008. There was no comparable expense for the same period in the prior year. These Convertible Debentures were fully converted to common shares on July 17, 2008.

Net loss and Cash Flow

As at September 30, 2008, the Company had an accumulated deficit of $3,872,620. (December 31, 2007 - $1,686,169).

The Company incurred a net loss of $648,217 (or $0.00 per share) for the three-month period and $2,186,451 (or $0.03 per share) for the nine months ended September 30, 2008 compared to a net loss of $148,717 (or $0.00 per share) and $392,908 (or $0.01 per share) for the same periods in 2007. The net loss in all periods is due to the fact that the Company has no revenue other than interest against which to offset expenses.

Cash used in operating activities for the quarter was $978,052 compared to $132,385 in 2007. Cash used in operations for the nine months ended September 30, 2008 was $1,333,166 compared to $373,597 in 2007. The increase in cash used in operations was due to disbursements for approximately $500,000 in professional fees, approximately $169,000 in travel and promotion costs and $779,035 in activities related to maintaining offices, staff and other general and administrative duties.

Cash provided from financing activities for the quarter ended September 30, 2008 was $31,785,106 compared to $8,419 for the comparable quarter in 2007. Cash from financing activities for nine months ended September 30, 2008 increased to $31,592,847 compared to $378, 643 for the same period in 2007. The large increase in cash in-flows in both the three and nine month periods was due to the $31,489,814 in net cash proceeds of the IPO financing of July 15, 2008. The increase in cash for the nine month period ended September 30 2008 also included a cash inflow of $709,571 from the issuance of the last tranche of the Convertible Debenture financing offset by $605,401 for deferred cash received for the debentures prior to December 31, 2007. There were no similar transactions in the same period in 2007.

Cash used in investing activities for the quarter ended September 30, 2008 was $8,168,940 compared to a cash inflow of $1,757 in 2007. This increase was primarily due to (i) the US$6,500,000 (CDN$6,708,000) outflow for the letter of guarantee required by the rig contracts offset by a cash inflow due to reduction in the original BMO Letter of Guarantee of US$1,961,239 (CDN$1,969,236) with no similar cash inflows or outflows in the comparable period in 2007, (ii) spending related to deferred exploration cost of $3,221,367 for geological and geophysical, exploratory drilling and administrative costs and materials related to the current drilling program with no similar level of expenditures for the same period in the prior year and (iii) deposits of $208,809 related to security for corporate credit cards and a security deposit for new office space in Calgary with no similar expenditures in the same period last year.

Cash used for investing activities for the nine months ended September 30, 2008 was $12,054,179 compared to $4,773 for the same period in 2007. This increase was primarily due to (i) the net cash outflows for the letter of guarantees required by the rig contracts and Second Exploration Phase of the Concession Agreement with no similar cash outflows in during 2007, (ii) spending related to deferred exploration costs of $3,789,544 for geological and geophysical, exploratory drilling, administration costs and an increase in materials inventory for the upcoming drilling program to begin in the fourth quarter with no similar level of expenditures for the same period in the prior year, (iii) $364,769 of cash acquired upon the acquisition of EOH in the second quarter of fiscal 2008 with no similar transaction in 2007, (iv) deposits of $257,309, related to security for corporate credit cards and a security deposit for new office space in Calgary with no similar deposits in 2007 and (v) $93,520 in additional cash calls for MEII with no similar comparable cash flows in the comparable period of 2007.

Summary of Quarterly Results (Unaudited)

Quarter ended:	Total Assets ($)	Working Capital ($)	Cash Flow from Operations ($)	Net Loss ($)	Net Loss per Share ($0.00)
09/30/2008	42,006,654	22,697,074	(978,052)	(648,217)	(0.00)
06/30/2008	11,437,336	(7,855,647)	(60,917)	(458,308)	(0.01)
03/31/2008	7,989,334	(7,351,380)	(289,152)	(1,080,581)	(0.03)
12/31/2007	8,189,132	(2,349,707)	(754,898)	(948,926)	(0.02)

Capitalized Exploration Costs

The Company capitalizes costs associated with the acquisition and mineral development activities related to the EWA Concession. These costs increased from $3,029,254 as December 31, 2007 to $10,708,709 at September 30, 2008. Of this increase, $4,080,007 was the result of the share exchange agreement the Company closed on April 24, 2008, pursuant to which the Company acquired all of the outstanding common shares of EOH. The Company satisfied payment of the purchase price by issuing one common share in exchange for each EOH share acquired (being an aggregate of 24,000,000 common shares) for which Sea Dragon acquired a 35% interest in the Concession Agreement. At the date of the transaction, there were no reserves attributable to the Concession Agreement; hence, the acquisition was not accounted for as a business transaction. In addition, the amount receivable of $764,776 which was owed to Sea Dragon by MEII was assumed by EOH upon its acquisition of a 20% interest in the Concession Agreement from MEII. As such it was included in the purchase price of EOH as the receivable eliminated upon consolidation.

During the three month period ended September 30, 2008 the Company capitalized disbursements for cash calls of approximately $3,220,000. During the nine month period ended September 30, 2008 the Company made disbursements for cash calls totaling approximately $3,790,000 for which the operator had disbursed approximately $2,342,000 for geological and geophysical, administrative costs and materials related to the current drilling program by the end of the period.

A summary of the consolidated capitalized exploration costs, excluding the amount paid to acquire EOH, incurred during the nine months ended September 30, 2008 and the year ended December 31, 2007 follows:

		September 30, 2008 (Unaudited)		**December 31, 2007** (Unaudited)
Geological and Geophysical	$	122,000	$	164,000
Exploratory Drilling				
-Rig lease for 4X-well		-		592,000
-Engineering services		-		430,000
-Balance of exploratory drilling costs (including other leased equipment materials, and site preparation)		35,000		1,077,000
Administrative		485,000		274,000
Materials and other		1,700,000		268,000
Prepaid exploration cost		1,448,000		-
Total Capitalized Costs	**$**	**3,790,000**	**$**	**2,805,000**

Debt Instruments and Commitments

The Company completed the Convertible Debenture offering in three tranches on November 26 and 30, 2007 and January 15, 2008 pursuant to which the Company issued Convertible Debentures in the aggregate principal amount of $7,500,000. The Convertible Debentures were unsecured, non-interest bearing and originally matured on March 31, 2008. Pursuant to an amending agreement dated March 30, 2008 between the Company and a majority of the holders of the Convertible Debentures the maturity date was extended to June 30, 2008. On June 19, 2008 the debenture holders agreed to further extend the maturity date to July 31, 2008 to allow the Company additional time to complete its IPO. Subject to the terms and conditions set forth therein, the Convertible Debentures were convertible at any time before maturity at the option of the Convertible Debenture holder on the basis of one common share per $0.35 of the principal amount of the Convertible Debenture. In addition, upon a liquidity event, all of the outstanding Convertible Debentures were to be automatically converted into common shares at the same conversion price. On July 17, 2008 the Convertible Debentures were automatically converted into 21,428,571 common shares of the Company as a result of the IPO.

On or about January 15, 2008, the Company obtained and deposited the BMO Letter of Guarantee in the amount of $3,524,215 (US$3,483,114) in connection with the election to proceed into the Second Exploration Phase of the Concession Agreement. As at June 30, 2008 the BMO Letter of Guarantee, including interest was $3,359,811 (US$3,540,196). On August 29, 2008 the amount of the BMO Letter of Guarantee was reduced to US$1,521,875 (CDN$1,570,575). The Company believes it will be able to reclaim the balance of the deposit upon completing the required drilling program in 2009.

On September 30, 2008 the Company deposited an additional Letter of Guarantee for US$6,500,000 (CDN$6,708,000) as required under the Assignment Agreement dated August 28 for the drilling rig in the EWA Concession.

The company pledged $230,000 as a security deposit held for corporate credit cards issued to various officers and directors to be used strictly for travel and promotion expenses.

The Company has entered into an agreement to lease office space at Suite 1100 on the 11th Floor of 340-12th Avenue S.W. Calgary, Alberta beginning on November 1, 2008. A payment has been made as a deposit for the first and last month's rent currently booked as deposit. The monthly rent is $14,218.

Contingency

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 and Ghareeb Awad (the "Plaintiffs") against the Minister of Petroleum – Egypt, Dover 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.

On November 10, 2008 the British Columbia Supreme Court ruled in favour of an application made by the Company that the Plaintiffs did not have a legal right to initiate a court action in respect of a contractual dispute involving the East Wadi Araba concession in Egypt. This matter will now move to arbitration in Alberta if it is pursued by the Plaintiffs involved.

On November 25, 2008 the Plaintiffs filed motions in British Columbia seeking the appointment of an arbitrator, and a deposit to be paid by the Company to the court in the amount of $750,000, or alternatively a $1 million payment to the plaintiffs as interim relief for breach of contract.

The Company strongly believes these claims to be without merit and will vigorously defend itself against them. 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. Given the nature of the current action commenced by the Plaintiffs and the resulting uncertainty as to the prior issuance of 3,000,000 shares of the Company pursuant to a Settlement Agreement dated January 24, 2007 these shares are currently being held by the Company's litigation legal counsel pending a resolution.

Liquidity

At September 30, 2008 the Company had working capital of $22,697,074 (December 31, 2007 – working capital deficit of ($2,349,707)).

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.

Capital Resources

The Company has committed to drilling a minimum of two wells in the EWA Concession by July 2009. The Company has budgeted these costs for drilling and completion to be USD$12,500,000 per well. Should the Company not meet this drilling obligation it will risk losing the EWA Concession and returning it back to EGPC.

The Company expects to meet this drilling commitment through the proceeds of the IPO offering. The Company has planned through the IPO to fund the drilling and completion costs of three wells. Should the Company make a discovery it will seek additional funding through further offerings and/or debt to fund additional development of the EWA Concession.

Related Party Transactions

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

Accounting Policies and Estimates

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.

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 but had no effect on the financial statements of the Company.

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 but had no effect on the financial statements of the Company.

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 but had no effect on the financial statements of the Company.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, particularly the recoverability of the resource property acquisition and deferred exploration costs, the recording of liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of various factors affecting future costs and operations, actual results could differ from management's best estimates. Principal estimates used in the preparation of the financial statements include estimates for the realizable value of resource property acquisition and deferred exploration costs, ability to continue as a going concern, and stock-based compensation amounts related to granting of finders' fee options and share purchase warrants.

Unevaluated Oil and Gas Costs

In accordance with CICA Accounting Guideline 16, the Company accounts for exploration and development activities under the full-cost method. All costs associated with oil and gas property acquisition, exploration and development are capitalized on a country-by-country cost centre basis pending determination of the feasibility of the project. Costs incurred include license acquisition costs, materials and drilling costs for both productive and non productive wells, geological and geophysical consulting fees and expenses related to exploration activities. The total of these capitalized costs for the period ended September 30, 2008 totaled $10,708,709. If an oil and gas property development project is successful, the related expenditures will be depleted and amortized over the estimated life of the reserves on a unit of production basis. Where a license or deed of assignment is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs will be charged to earnings during the period.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool.

Depletion of oil and gas properties and depreciation of production equipment are calculated using the unit of production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, oil and gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

Once commercial production is achieved, the Company will apply a "ceiling test" to ensure that capitalized costs do not exceed total estimated future net revenues from the production of proved reserves less general and administrative expenses, financing costs, site restoration costs and income taxes related to future production. Any reduction in value as a result of the ceiling test will be charged to operations as additional depletion, depreciation, and amortization. The Company did not apply a ceiling test in 2007 or 2006, or for the period ended September 2008 because it is in the exploration stage and no proven reserves have been established. Cost centres in the exploration stage are assessed at each reporting date to determine whether it is likely that the net costs, in aggregate, may be recovered in the future. Costs considered unlikely to be recovered are charged to earnings during the period. No impairment was determined to have occurred for the nine months ended September 30, 2008 (September 30, 2007 - $nil).

Financial Instruments

Sea Dragon's financial instruments presented in the balance sheet consist of cash, amounts receivable, deposit, deposit – letter of guarantee, accounts payable and accrued liabilities and convertible debentures. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that could be realized or settled in current market transactions.

Economic Factors Affecting Sea Dragon

The following economic factors represent both positive and negative changes in global and local economies and more specifically the oil and gas industry in Egypt. Sea Dragon has no direct control over these factors and is subject to the full effect that these factors may have upon the Company and its operations. In several cases, mitigating actions have been taken by Sea Dragon; however, there is no assurance that such actions will have any continuing impact in controlling these factors and their effect on Sea Dragon.

Foreign Exchange Fluctuations

Sea Dragon operates in a US dollar based environment. All future revenues and the majority of the Company's costs (both capital and operating) are in US dollars. However, as a Canadian company, Sea Dragon reports its financial results in Canadian currency. Accordingly, all US dollar expenditures are presented in Sea Dragon's financial statements converted to Canadian funds based on the Canadian to US dollar exchange rates prevailing at the respective transaction date.

For the nine months ended September 30, 2008, the Company had a foreign exchange gain of $56,232 as compared to a loss of $9,149 in 2007. The movement in foreign exchange is primarily attributable to foreign exchange rate movements on US Dollar denominated cash and the Company's letter of guarantee.

Business Risk Assessment

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

Foreign Investments

All of the Company's oil investments are located outside of Canada. These investments are subject to the risks associated with foreign investment including tax increases, royalty increases, re-negotiation of contracts, currency exchange fluctuations and political uncertainty. The jurisdiction in which the Company operates, Egypt, has a well established fiscal regime and there are some improved fiscal terms to encourage investments. The functional currency in the primary operating area is US dollars. Sea Dragon expects to be paid in US dollars when it commences production.

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes.

Competition

The Company operates in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including U.S.-based and foreign companies doing business in Egypt. The Company faces intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in seeking oil and gas exploration licences and production licences in Egypt; and acquiring desirable producing properties or new leases for future exploration. The Company also faces competition in marketing oil and natural gas production; acquiring exploration leases; hiring skilled industry personnel; and acquiring the equipment and expertise necessary to develop and operate properties.

The Company believes it has significant in-country relationships within the business community and government authorities needed to obtain cooperation to execute projects. The Company also has excellent relationships with its working interest partner in the EWA Concession. The Company believes that it is well positioned in Egypt to compete with other companies operating in the region.

Disclosure Controls and Procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer certificates, which it has done for the nine months ended September 30, 2008. The Corporation makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at September 30, 2008.

Outlook

As of the 24 of November, 2008 the Company has commenced drilling operations of its Dahab North prospect on the EWA Concession.

The Company is also actively looking at other potential oil opportunities in Egypt with some production assets. If the Company can secure one of these opportunities it will help the company to offset some of the exploration risk on the EWA Concession.

Cautionary Statement regarding Forward-Looking Information

Certain statements contained in this MD&A including statements which contain certain words such as “anticipate”, “could”, “should”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “believe” and similar expressions, statements relating to matters that are not historical facts, and statements of the Company’s beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by management derived from it’s experience and perceptions. Forward-looking information in this MD& A includes, but is not limited to: statements relating to “reserves” and “resources” as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future; expected cash provided by future operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and growth of the Company’s business and operations; the maintenance of existing government, supplier and partner relationships; supply channels; accounting policies; balance sheet financial instruments; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. These forward-looking statements are made as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil prices; oil product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by the Company and other factors, many of which are beyond management’s control.

Additional information relating to the Company is available on SEDAR at www.sedar.com.