Sea Dragon Energy Inc.

Sea Dragon Energy Inc.
"An Exploration Stage Corporation"
Interim Financial Statements
June 30, 2009
(Unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the periods ended June 30, 2009 and June 30, 2008.

Sea Dragon Energy Inc.
“An Exploration Stage Corporation”
Balance Sheets
(Unaudited - Expressed in Canadian Dollars)

$000	**June 30, 2009**	December 31, 2008
ASSETS		
Current		
Cash	**$ 2,118**	$ 16,733
Interest receivable	**34**	271
Prepaid expenses and deposits	**75**	38
GST recoverable	**14**	-
	2,241	17,042
Restricted cash (Note 5)	**6,613**	10,081
Investment (Note 6)	**300**	300
Property and equipment (Note 7)	**1,485**	2,391
	$ 10,639	$ 29,814
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 402**	$ 6,946
Demand Loan (Note 8)		
Commitments (Note 10)		
SHAREHOLDERS’ EQUITY		
Common stock (Note 9)	**44,444**	44,444
Contributed surplus (Note 9)	**1,611**	1,437
Deficit accumulated during exploration stage	**(35,818)**	(23,013)
	10,237	22,868
	$ 10,639	$ 29,814

Approved by the Directors:

“David Thompson” (Signed)
David Thompson

“Barry Swan” (Signed)
Barry Swan

The accompanying notes are an integral part of the financial statements

Sea Dragon Energy Inc.
"An Exploration Stage Corporation"
Statements of Loss, Comprehensive Loss and Deficit
(Unaudited - Expressed in Canadian Dollars)

$000	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Cumulative Period from Inception (March 31, 2006) to June 30, 2009
EXPENSES					
General and administrative	**$ 921**	$ 421	$ **1,830**	$ 717	$ 4,983
Foreign exchange loss (gain)	**206**	53	**349**	(12)	(1,505)
Stock-based compensation (Note 11)	**92**	-	**174**	-	324
Impairment of oil and gas properties (Note 9)	**21**	-	**10,620**	-	31,029
Depletion and depreciation (Note 9)	**4**	-	**7**	-	9
Accretion of debenture (Note 10)	**-**	25	**-**	903	1,179
Loss before other items	**(1,244)**	(499)	**(12,980)**	(1,608)	(36,019)
OTHER INCOME (EXPENSE)					
Interest and other income	**103**	-	**175**	-	662
Loss on settlement of lawsuit	**-**	-	**-**	-	(461)
	103	-	**175**	-	201
NET LOSS AND COMPREHENSIVE LOSS	**(1,141)**	(458)	**(12,805)**	(1,539)	(35,818)
DEFICIT, Beginning of period	**(34,677)**	(2,767)	**(23,013)**	(1,686)	-
DEFICIT, End of period	**$ (35,818)**	$ (3,225)	**(35,818)**	(3,225)	$ (35,818)
Basic and diluted loss per share	**$ (0.01)**	$ (0.00)	$ **(0.09)**	(0.03)	
Weighted average common shares outstanding	**144,509,405**	40,428,049	**144,509,405**	49,714,533	

The accompanying notes are an integral part of the financial statements

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

$000	**Three Months ended June 30, 2009**	Three Months ended June 30, 2008	**Six Months ended June 30, 2009**	Six Months ended June 30, 2008	Cumulative from Inception (March 28,2006) to March 31, 2009
Cash provided by (used in)					
Operating Activities					
Net loss	**$ (1,141)**	$ (458)	**$ (12,805)**	$ (1,539)	$ (35,818)
Add non-cash items:					
Accretion of debenture	**-**	25	**-**	902	1179
Stock-based compensation	**92**	-	**174**	-	325
Depletion and depreciation	**4**	-	**7**	-	9
Impairment of oil and gas properties	**21**	-	**10,620**	-	31,029
Unrealized currency / (gains)	**(4)**	-	**140**	-	(1,427)
Loss on settlement of lawsuit	**-**	-	**-**	-	461
Changes in non-cash working capital (Note 11)	143	372	104	281	(203)
	(885)	(61)	**(1,759)**	(356)	(4,445)
Financing Activities					
Proceeds from issuance of shares, net of	**-**	-	**-**	-	33,549
Proceeds from issuance of convertible	**-**	-	**-**	104	6,861
Demand loan	**(6,908)**	-	**111**	-	111
Deferred asset – IPO cost	**-**	(193)	**-**	(306)	-
Due to related parties	**-**	11	**-**	10	-
	(6,908)	(182)	**111**	(192)	40,521
Investing Activities					
Property and equipment expenditures	**(564)**	(96)	**(11,340)**	(484)	(25,169)
Cash received on acquisition (Note 4)	**-**	365	**-**	365	365
Restricted cash	**11,710**	-	**3,217**	(3,588)	(5,291)
Investment – Convertible debenture	**-**	(4)	**-**	-	(300)
Due from related parties	**-**	-	**-**	-	(765)
Changes in non-cash investing working capital (Note 11)	**(7,119)**	(288)	**(4,844)**	(178)	(2,798)
	4,027	(23)	**(12,967)**	(3,885)	(33,958)
Net increase(decrease) in cash	**(3,766)**	(266)	**(14,615)**	(4,433)	2,118
Cash, beginning of period	**5,884**	285	**16,733**	4,452	-
Cash, end of period	**$ 2,118**	$ 19	**$ 2,118**	$ 19	$ 2,118
Interest paid	**$ 38**	$ -	**$ 125**	$ -	$ -
Taxes paid	**-**	-	**-**	-	-

The accompanying notes are an integral part of the financial statements

NOTE 1 – BASIS OF PRESENTATION AND NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

a. Basis of Presentation

The financial statements include the accounts of Sea Dragon Energy Inc. ("Sea Dragon" or the "Company") at June 30, 2009 and December 31, 2008 and for the three and six months ended June 30, 2009 and 2008 and the cumulative period from March 28, 2006 (inception) through June 30, 2009 and are presented in accordance with Canadian generally accepted accounting principles on the same basis as the audited consolidated financial statements as at and for the year ended December 31, 2008, except as outlined in Note 2. Accordingly, these interim financial statements should be read in conjunction with Sea Dragon's consolidated financial statements and the notes thereto for the year ended December 31, 2008. In these interim financial statements all dollar amounts are disclosed in Canadian dollars unless otherwise noted.

b. Organization

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 9) and seeking out other oil and gas investment opportunities.

c. Ability to Continue as a Going Concern

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payments of liabilities in the ordinary course of business.

For the six months ended June 30, 2009 the Company reported a net loss of $12,805 and incurred negative cash flow from operating activities of $1,759, although its working capital at June 30, 2009 was $1,839 and its restricted cash reserves were $6,613.

The future of the company is dependent on its ability to successfully acquire, explore, develop and produce economically viable reserves, and when necessary, raise capital. Management is engaged in several efforts to evaluate opportunities for the participation in oil and gas exploration and production ventures and is pursuing sources with debt and equity financing to match the possible acquisitions. Management believes that these courses of action will allow the Company to grow on a solid financial foundation and that the going concern assumption is appropriate.

NOTE 2 – CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets, Section 3064:

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 adopted 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. Also in February 2008, the CICA amended portions of Section 1000, "*Financial Statement Concepts*", which the CICA concluded permitted deferral of costs that did not meet the definition of an asset. The

amendments apply to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Upon adoption of S.3064 and the amendments to Section 1000 on January 1, 2009, capitalized amounts that no longer meet the definition of an asset will be expensed retrospectively. The adoption of this standard did not have an impact on the financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospect application. The application of this EIC did not have a material effect on the Company's financial statements.

New Accounting Standards

a) Business Combinations

In December 2008, the CICA issued Section 1582, *Business Combinations*, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company is currently evaluating the impact of this changeover on its Financial Statements.

b) Non-Controlling Interests

In December 2008, the CICA issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which along with Section 1603 replace existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. These standards currently do not impact the Company as it does not have any subsidiaries.

c) International Financial Reporting Standards

On February 13, 2008 the Canadian Accounting Standards Board has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canada's current GAAP for all publicly accountable profit-oriented enterprises.

The Company has determined that the most significant impact of IFRS conversion is to property and equipment. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase. The Company currently follows full cost accounting as prescribed in Accounting Guideline 16, *Oil and Gas Accounting – Full Cost*. Conversion to IFRS may have a significant impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the pre-exploration and development phases. In addition, the level at which impairment tests are performed and the impairment testing methodology will differ under IFRS. IFRS conversion will also result in other impacts, some of which may be significant in nature. The impact on the Company's Consolidated Financial Statements cannot be reasonably determined at this time.

NOTE 3 – FINANCIAL RISK MANAGEMENT

a. Capital Management:

The Company's capital structure consists of shareholders' equity, working capital and debt. 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 9) 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 and to pursue other opportunities.

The Company monitors its capital structure and short-term financing requirements using cash flow from operations and non-GAAP metrics consisting of funds flow from operations, both calculated on most current four rolling quarter basis. Funds flow from operations represents funds generated from operating activities before changes in non-cash working capital. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

$000		**June 30, 2009**		June 30, 2008
Cash flow from operations	$	**(1,759)**	$	(1,608)
Funds flow from operations	$	**(1,864)**	$	(1,327)
Working capital (deficiency)	$	**1,839**	$	(7,856)

The Company has taken steps to increase working capital by reducing the indebtedness to release the restriction on the underlying funds, thereby adding them to the available working capital balance. As a result, working capital as at June 30, 2009 has increased over the prior quarter to $1,839 as the Company has reduced restricted funds securing Letters of Guarantee and other indebtedness by $12,065 during the current period (See Note 5). The Company is taking steps to further reduce the indebtedness so as to obtain a further release of restrictions on the underlying funds, thereby adding them to the available working capital.

In order to complete planned exploration and development under the Concession Agreement, pay for administrative costs and pursue other exploration and development opportunities, the Company will use some of its existing working capital and may raise additional amounts through a combination of debt and equity financing as needed.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2009 compared to the year ended December 31, 2008. The Company is not subject to externally imposed capital requirements.

b. Financial Instruments:

The Company's financial instruments as at June 30, 2009 were comprised of cash, restricted cash, and investment and accounts payable and accrued liabilities. Fair value of financial assets and financial liabilities and information related to risk management positions and discussions of risks associated with financial assets and financial liabilities are presented below.

(i) Fair Value

The investment is recorded at its cost which the Company believes was the fair value at the time as the price was negotiated by two unrelated parties acting at arm's length. The fair value of the investment is reviewed on an on-going basis by discussions and reports provided by the development stage issuer so that the Company can assess whether the operating plan upon which the investment decision was made is ongoing as was anticipated. During the first quarter of 2009, the Company's management visited the issuer's exploration site, and reviewed and discussed the exploration plans with the issuer's senior management and on-site operating personnel.

The carrying amount of the Company's accounts payable and accrued liabilities approximates their fair values due to the short terms to maturity.

(ii) Risks Associated with Financial Assets and Liabilities

Credit Risk

The Company is exposed to credit risk in relation to its cash, restricted cash, investment and amounts receivable and the risk of financial loss if counterparty to a financial instrument fails to meet its contractual obligations. The Company maintains cash and restricted cash with a Major Canadian Chartered bank and therefore the Company considers cash to have credit risk which reflects the strength of the Company's bank. The Company's investment is in a debenture in a Prevail Energy Inc. (a Canadian private company) (Note 7). Since Prevail Energy Inc. is an exploration stage company with no history of cash flow there is a significant credit risk that the Company will not receive the $300,000 in principal and $45,000 in interest owed on the debenture at maturity.

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 funds raised from the IPO financing that closed during the year ended December 31, 2008 (Note 9) will be adequate to support these financial liabilities.

Market Risk

Market risk is the risk that changes in market prices including commodity prices, foreign exchange rates and interest rates that will affect the Company' net earnings of the value of its financial instruments. The objective of market risk management is to reduce exposures to acceptable limits while maximizing returns.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of a change in commodity prices. The ability of the Company to develop its interest in the Concession Agreement 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 Canadian dollars 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 Investments Limited ("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 exposure to foreign currency exchange rate fluctuations at this time. The Company has US$7,053 cash ($C equivalent - $8,150) and a net balance of $US denominated accounts receivable, prepaid expenses and deposits less accounts payable of $US493 ($C equivalent is $571).

Sensitivity
The Company estimates a ten percent increase or decrease in the United States foreign exchange rate would have resulted in unrealized foreign exchange gain or loss, respectively, of $C870.

NOTE 4 – SIGNIFICANT ACQUISITION

On April 24, 2008, the Company acquired all of the outstanding common shares of Egypt Oil Holdings Inc. ("EOH") for 24,000,000 Sea Dragon common shares and the elimination of an amount of $765,000 that had been owed by EOH to Sea Dragon. The results of EOH have been included in the consolidated financial statements of Sea Dragon since that date until EOH October 10, 2008 when EOH was dissolved and its assets and liabilities were amalgamated into the Company. EOH held a 35% interest in the East Wadi Araba Concession Area in Egypt ("the EWA Concession").

The purchase consideration reflected in the table below was calculated using a common share price of $0.1525 per Sea Dragon share, which was 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.

The acquisition has been accounted for using the purchase method with Sea Dragon as the acquirer, and the purchase price was allocated to the fair value of the assets acquired and the liabilities assumed as follows:

Purchase price (*$000)*	
24,000,000 Sea Dragon common shares @$0.1525 per share	$ 3,660
Amount receivable from related party	765
	$ 4,425
Allocation of purchase price (*$000*)	
Cash	$ 365
Accounts payable and accrued liabilities	(20)
Resource property	4,080
	$ 4,425

EOH was dissolved on October 10, 2008 and its assets and liabilities were amalgamated into the Company.

NOTE 5 – RESTRICTED CASH

Restricted cash consists of cash on deposit that secure two Letters of Credit, and a minimum cash balance that secures corporate credit cards. These balances are held under the following terms:

$000	Terms	Amount ($US)	Amount($C)
a)	Minimum cash balance in $US denominated account to support:		
	• TransOcean letter of Guarantee	4,000	4,624
	• EGPC letter of Guarantee	1,522	1,759
		5,522	6,383
b)	Minimum cash balance in $C denominated account	199	230
		5,721	6,613

a) The TransOcean letter of credit, which secures the contractor's payment for the Transocean 103 off-shore drilling rig used to drill the East Wadi Araba 5-X well, was reduced to $US4,000 in June 2009 and extended to September 12, 2009. Subsequent to the year end, the Company remitted the final payment to TransOcean for its services and TransOcean initiated the process to cancel the Letter of Guarantee.

   The letter of credit for $US1,522, was provided to the Egyptian General Petroleum Corporation as security for the financial commitment of the Exploration phase of the East Wadi Araba concession in Egypt. The Company is awaiting the completion of EGPC's audit of the costs for the EWA wells, after which it expects the Letter of Guarantee will be released.

   Upon maturity, the Letters of Guarantee will be released by the holders in full satisfaction of the underlying commitment, extended by Sea Dragon, or called by the holders.

b) Security for corporate credit cards is a minimum cash balance of $C98.

NOTE 6 – INVESTMENT

On December 22, 2008, the Company purchased a $300 convertible debenture issued by Prevail Energy Inc., ("Prevail") a private Canadian corporation with a joint venture interest in an oil and gas concession in The Republic of the Congo. The debenture bears interest at 15% per annum and matures on November 19, 2009. Any unpaid amounts of the debenture and accrued interest may be converted into the shares of Prevail at the rate of $C0.15 per share. If the full amount of the debenture and interest is converted, the Company could acquire 3,552,500 common shares of Prevail, representing 8.92% of all of the issued common shares of Prevail on a fully diluted basis. The Company has classified this financial instrument as a security held for trading.

The fair value of the investment at June 30, 2009 equals its purchase price because the Company is not aware of any events that have occurred between the purchase date and the year-end which would have a material effect on the fair value of the investment.

NOTE 7 - PROPERTY AND EQUIPMENT

$000		**June 30, 2009**		**December 31, 2008**
Furniture and fixtures	**$**	**49**	$	46
Accumulated deprecation		**(9)**		(2)
Furniture & fixtures, net		**40**		44
Exploration and development expenses		**32,474**		22,756
Write-down of EWA Concession costs		**31,029**		(20,409)
Oil and gas properties, net		**1,445**		2,347
	$	**1,485**	$	2,391

The Company is in the exploration stages of its planned principal operations in Egypt. Through a series of agreements it entered into in 2005 and the acquisition of EOH (see Note 4) the Sea Dragon holds a 75% interest in the EWA Concession. Under the terms of the Concession Agreement and the Joint Operating Agreement, the Company was obligated to drill one well during the first exploration phase and to drill two more wells and spend $US3.5 million on exploration activities. During the second quarter of 2009 the Company completed its obligations under the Concession Agreement.

The Exploration phase of the Concession Agreement expired on July 31, 2009, and the joint venture has decided to abandon the concession. Accordingly, all costs related to the acquisition of the concession, direct drilling and capitalized administrative and other overhead costs totaling were written off. This consisted of $20,409 that was written off during the year ended December 31, 2008 and $10,742 written off in the six months ended June 30, 2009. The costs remaining on the balance sheet are comprised of:

$000		**June 30,2009**		**December 31, 2008**
Amount receivable	**$**	**728**	$	666
Drilling materials and supplies		**325**		268
Prepaid expenses and deposits		**392**		1,413
	$	**1,445**	$	2,347

The Company wrote down overhead costs relating to exploration and development activities during the six months ended June 30, 2009 of $780 in Egypt (2008 - Nil).

NOTE 8 – DEMAND LOAN

The demand loan bears interest at the bank prime rate for $US borrowings plus 1.875%, is payable upon demand, and is secured by Treasury Deposits or Guaranteed Investment Certificates in $C funds plus a 5% margin to account for weekly exchange rate fluctuations. On May 5, 2009 the Company repaid the revolving demand loan outstanding balance of $US 5,860 million, using $C6,908.

NOTE 9 – SHARE CAPITAL

a) **Authorized**

Unlimited common shares with no-par value.

Unlimited preference shares with no-par value. No preferred shares are issued or outstanding at June 30, 2009 and December 31, 2008.

b) **Issued and outstanding**

Common shares with no-par value *$000, except for number of shares*	Number of Shares		Amount
Balance, December 31, 2007	40,747,500		1,948
Shares issued to acquire EOH (Note 4)	24,000,000		3,660
Shares issued through Initial Public Offering at $0.60 less offering costs of $4,075,553, which included all costs directly associated with the IPO	58,333,334		30,924
Shares issued upon conversion of the convertible debentures	21,428,571		7,500
Contributed surplus from convertible debentures transferred to common shares upon conversion of the debentures	-		412
Balance, December 31, 2008 and June 30, 2009	144,509,405	$	44,444

On April 24, 2008 Sea Dragon issued 24,000,000 common shares to the shareholders of EOH in exchange for all of the issued and outstanding common shares of EOH, Making EOH became a wholly-owned subsidiary of the Company (Note 4).

On July 15, 2008, the Company completed an initial public offering ("the IPO") and issued a total of 58,333,334 common shares for net proceeds of $30,924 after deducting $1,317 for legal fees, $105 of accounting fees and agents' commission of $2,100 being 6% of the gross proceeds raised on the offering. Pursuant to the agency agreement, the Company also agreed to grant compensation options to the agents entitling the agents to acquire a number of common shares equal to 6% of the number of common shares sold by the Company under the offering at $0.60 per share for a period of eighteen months after the common shares are listed on the TSX-V,. As a result, the Company has granted 3.5 compensation options to the agents upon closing of the IPO. The fair value of the warrants was estimated to be $554 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%.

Concurrent with the closing of the IPO, convertible debentures were converted into 21,428,571 common shares at an aggregate value of $7,500 and $412 was transferred from contributed surplus to the value of the common shares. The Debenture holders were entitled to convert the debentures in whole or in part into common shares of the Company at a conversion price of $0.35 per share. The outstanding Debentures were automatically converted into common shares of the Company at the same conversion price upon the successful completion of the Initial Public Offering. The fair value of the Debenture financing, being the present value of the repayment obligation, was estimated using a discount factor of 16%. The Company allocated $7,113, to the debentures and $387 to the conversion feature (with an offsetting credit to contributed surplus). During 2007 and 2008, the Company recorded an aggregate accretion expense of $1,178 in respect of the discount.

As a condition of closing the IPO, 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. On July 31, 2009, pursuant to the Directors, Officers and Seed Shareholders Voluntary Escrow Agreement and the

Egypt Oil Holdings escrow agreement 33,860,500 common shares were released from escrow. In accordance with the Canadian Securities Administrators Policy 46-201 ("NP-46-201") 12,710,998 common shares remain in escrow.

c) **Options**

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 are 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.

Compensatory stock based transactions with directors, officers, employees and outside consultants are recorded at estimated fair value. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. The fair value of stock options, which vest immediately, is recorded at the date of grant; the fair value of options, which vest in future, is recognized over the vesting period. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date. Stock based compensation is recognized as an expense with a corresponding increase in options and warrants to purchase common stock.

Consideration received on the exercise of stock options together with the related portion previously recorded in options and warrants to purchase common stock is credited to share capital.

On July 28, 2008 the Company granted 4,200,000 stock options under the option plan 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 28, 2013. The Company also granted 500,000 stock options under the option plan at an exercise price of $0.60 per share to a third party consultant in exchange for investor relation services. These options vest 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 28, 2013.

These options were ascribed a total fair value of $1,142 on the grant date, using the Black-Scholes option pricing model with the following assumptions: average risk free rate – 3.4%, expected life – 5 years, expected volatility 106% and expected dividend yield of 0.00%. Stock-based compensation expense of $174 was recorded during the six months ended June 30, 2009 (2008 - $nil).

The following share purchase options were outstanding and exercisable at June 30, 2009:

Share Purchase Options	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2007	1,228,832	$0.32
Options granted 2008	8,879,089	$0.58
Outstanding, December 31, 2007 and June 30, 2009	10,107,921	$0.55
Exercisable, end of year	5,407,921	$0.48

The following summarizes details about the Company's stock option granted as at June 30, 2009:

	Outstanding Options		Vested Options	
Exercise Price	Number of Options	Remaining Contract Life	Number of Options	Remaining Contract Life
$0.20	529,000	1.05 years	529,000	1.05 years
$0.35	1,378,921	0.56 years	1,378,921	0.56 years
$0.60	3,500,000	0.56 years	3,500,000	0.56 years
$0.60	4,700,000	4.08 years	Nil	
	10,107,921		5,407,921	

Unvested options as of June 30, 2009 will vest in accordance with the following schedule:

Exercise Price	Number of Options	Date when vested
$0.60	1,566,667	July 28, 2009
$0.60	1,566,667	July 28, 2010
$0.60	1,566,666	July 28, 2011
	4,700,000	

<u>Warrants</u>

The following share purchase warrants were outstanding at June 30, 2009:

	Number of shares	Exercise Price	Expiry Date
Outstanding, January 1, 2007	2,316,250	$0.30	July 17, 2010
Issued, 2008	1,557,500	$0.30	July 17, 2010
Outstanding, December 31, 2008 and March 31, 2009	3,873,750	$0.30	July 17, 2010

NOTE 10 – COMMITMENTS

a. Under the terms of the Concession Agreement for the East Wadi Araba Area in Egypt, the Company committed to drill two wells and spend $US3.5 million on exploration activities. In order to secure the expenditure commitment, the Company issued a Letter of Guarantee for $US3.5 million to the Egyptian General Petroleum Corporation in January 2008. The Letter of Guarantee was subsequently reduced to $1,522 by August 2008 after completion of the first well (4-X) (See Note 5).

   The Company is of the opinion that with the completion of the 5-X well in February 2009 (See Note 7) the Company has met these performance and expenditure obligations.

b. The Company has entered into an agreement to lease office space in Calgary, Alberta beginning on November 1, 2008 and ending on January 30, 2011. A payment has been made as a deposit for the first and last month's rent currently booked as deposit. The monthly rent is $11,195.

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Changes in operating non-cash working capital consisted of the following:

$000		**Three Months ended June 30, 2009**		Three Months ended June 30, 2008		**Six Months ended June 30, 2009**		Six Months ended June 30, 2008
Operating activities								
Interest receivable	**$**	**171**	$	-	**$**	**236**	$	-
GST recoverable		**5**		(16)		**(13)**		7
Prepaid expenses		**47**		7		**(38)**		(6)
Accounts payable and accrued liabilities		**(80)**		381		**(81)**		280
	$	**143**	$	372	**$**	**104**	$	281
Investing activities								
Amount receivable	**$**	**225**	$	(68)	**$**	**(61)**	$	(94)
Prepaid expenses, deposits and amounts paid in excess of costs		**579**		-		**2,092**		-
Drilling materials and supplies		**(56)**		(62)		**(412)**		(110)
Accounts payable and accrued liabilities		**(7,867)**		(158)		**(6,463)**		26
	$	**(7,119)**	$	(288)	**$**	**(4,844)**	$	(178)

Other supplemental cash flow information consisted of the following:

Supplemental schedule of non-cash transactions *$000*		**Six Months ended June 30, 2009**		Six Months ended June 30, 2008		Cumulative Period from Inception (March 28, 2006) to June 30, 2009
Common shares issued for resource property (Note 9)	$	**-**	$	-	$	3,722
Resource property acquired by forgiveness of amount due from related party (Note 4)	$	**-**	$	-	$	765
Common shares issued upon exercise of convertible debenture (Note 9)	$	**-**	$	-	$	7,500
Contributed surplus recorded as common share capital upon exercise of convertible debenture (Note 9)	$	**-**		-	$	412

NOTE 12 – SUBSEQUENT EVENTS

a. On July 31, 2009, 34,760,500 common shares were released from escrow pursuant to the Directors, Officers and Shareholders' Voluntary Escrow Agreement (See Note 9 b).

b. On July 31, 2009, the exploration phase of the EWA Concession Agreement expired. As the joint venture determined that the hydrocarbons were insufficient to warrant further exploration it decided to allow the Concession Agreement to expire (See Note 7).

c. On August 10, 2009 the Company remitted the final payment for services to TransOcean thereby meeting the obligations to allow for the release of the $US 4,000 Letter of Guarantee (See Note 5).

d. On August 14, 2009 the Company entered into a Sale and Purchase Agreement with Premier Oil Overseas BV pursuant to which the Company will acquire the entire issued capital of Premier Egypt (N W Gemsa) BV. The acquisition, will give the Company a 10% working interest in the North West Gemsa Concession ("North West Gemsa"), Eastern Desert, Egypt, which includes development and exploration rights. The cost of this acquisition is US$12.5 million. The acquisition is subject to the necessary approvals from the Egyptian government.

e. On August 27th, 2009 the Company received notice from the Egyptian General Petroleum Corporation of the release of the EGPC Letter of Guarantee, thereby reducing the Company's restricted funds by US$1,521,875.