SEA DRAGON ENERGY INC.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED JUNE 30, 2009

The following management's discussion and analysis (the "MD&A") dated August 28, 2009 is a review of results of operations and the liquidity and capital resources of Sea Dragon Energy Inc. (the "Company" or "Sea Dragon") for its six months ended June 30, 2009 and June 30, 2008. This MD&A should be read in conjunction with the unaudited financial statements for the three months ended June 30, 2009 and 2008 and the audited financial statements and MD&A for the year ended December 31, 2008. 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 "Forward Looking Information", below.

All financial references in this MD&A are in Canadian Dollars unless otherwise noted.

Additional information related to the Corporation will be filed on SEDAR at www.sedar.com.

Selected quarterly information	**2009**		**2008**			
$C 000, except share and per share information	**2nd QTR**	1st Qtr	**4th Qtr**	**3rd Qtr**	**2ndt Qtr**	**1st Qtr**
Unrestricted cash balance (overdraft) at year-end	**2,118**	5,885	16,733	22,657	19	285
Working capital (deficiency)	**1,839**	(9,386)	10,096	22,697	(7,855)	(7,351)
Restricted cash	**6,613**	18,678	10,081	8,279	3,540	3,582
Total assets	**10,639**	26,902	29,814	42,007	11,438	7,989
Shareholders' equity	**10,237**	11,286	22,868	41,947	3,526	325
Share capital	**44,444**	44,444	44,444	44,043	5,608	1,948
Common shares outstanding						
Basic	**144,509,405**	144,509,405	144,509,405	144,509,405	64,747,500	
Diluted	**158,491,076**	158,491,076	158,491,076	158,491,076	Note (1)	Note (1)
Weighted average common shares outstanding						
Basic	**144,509,405**	144,509,405	144,509,405	134,015,636	58,581,566	40,747,500
Diluted	**158,491,076**	158,491,076	158,491,076	143056693	Note (1)	Note (1)
Retained earnings (Deficit)	**(35,818)**	(34,678)	(23,013)	(3,873)	(3,225)	(2,767)
Cash flow from operations	**(1,759)**	(873)	(499)	(978)		(298)
Funds flow from operations(2)	**(1,864)**	(836)	(277)	(575)		(203)
Basic, per share(2)(3)	**(0.013)**	($0.006)	($0.002)	($0.004)		($0.050)
Capital expenditures	**11,340**	10,777	3,790	3,221		
Net income (loss)	**(12,805)**	(11,665)	(19,140)	(648)	(458)	(1,080)
Basic, per share(3)	**(0.09)**	($0.08)	(0.13)	($0.005)	($0.008)	($0.027)

(1) Diluted weighted average number of common shares outstanding, which is calculated with respect to daily stock trading prices not available until the Company's commons shares were listed on the Toronto Venture Exchange and stock prices became publicly available.

(2) See discussion concerning non-GAAP measures

(3) Funds flow from operations per share and Net income per share are not calculated on a diluted basis as they are anti-dilutive.

ACHIEVEMENTS

During the first six months of 2009 the company attained the following milestones:

- Completed drilling of the North Dahab Prospect (the 5-X well), on the East Wadi Araba ("EWA") concession in Egypt. The well was drilled to a final total depth of 9,750' MD/8,644' TVD utilizing the GSF #103 rig and was fully evaluated by drilling two well bores from the same surface location in order to test Miocene and Pre-Miocene targets. The well encountered two separate reservoirs in the Kareem and Rudeis formations and hydrocarbons were encountered however as the hydrocarbons did not meet the

Company's economic criteria the well was plugged and abandoned. The joint venture has decided to not pursue any additional exploration activities and instead it will allow the Concession Agreement to expire on July 31, 2009.

- Adopted a strategy to seek out producing or near to production properties, primarily in the North East region of Africa, concentrating on locations in Egypt. Sea Dragon has formed an "Opportunities Committee", comprised of directors and senior management and supported by consultants that have worked closely with the Company and have significant oil and gas exploration and development experience in this part of the world. The Committee has a mandate to seek out, assess and make recommendations on projects.
- During the second quarter and up to the date of this report, the Company has made a concerted effort to obtain the release of the restrictions on the restricted cash balances.

Subsequent to the Second Quarter of 2009

- 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.
- 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.

Forward-Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements. Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks of the Company may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic, political and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Sea Dragon's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Sea Dragon is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. See "Risk Factors."

Non-GAAP Measures

Funds flow from operations is a non-GAAP measure that 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 believes that funds flow from operations is a useful supplemental measure to analyze the Company's ability to generate cash flow to fund capital investment and working capital requirements. Funds flow from operations may not be comparable to similar measures used by other companies.

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Sea Dragon's financial results have been and will continue to be significantly affected by a number of transactions that occurred from the Company's inception to the date of this Management's Discussion and Analysis.

- On February 17, 2009, the Company entered into a Letter of Intent with Dover Investments Limited ("Dover") to acquire 100% of the participating interest of the Gebel El Zeit Concession in Egypt that is currently owned by Dover. The Company has determined not to pursue this opportunity at this time.
- On February 17, 2009 the Company announced that the Dahab North Prospect was drilled to a depth of 9,750 feet and was fully evaluated by drilling two well bores from the same surface location in order to test the Miocene and Pre-Miocene targets. Although the well encountered two separate reservoirs in the Kareem and Rudeis formation and hydrocarbons were encountered, the findings were determined to be uneconomic for further exploration or development and the well was plugged and abandoned. The GSF#103 drilling rig was released. As a result the Company has written-off $31,028,887 being the aggregate costs related to the acquisition of an interest in this concession and the direct and indirect drilling costs and shared administration costs related this concession. The Company is of the opinion that this operation completed its obligations under the Concession Agreement.
- On December 12, 2008 the Company acquired a $300,000 convertible debenture issued by Prevail Energy Inc., ("Prevail") a Canadian private corporation. Prevail owns a 20% interest in a joint venture that will explore and develop the Mengo, Kundji and Bindi fields in the Congo. The other joint venture operators are Societe Nationale des Petroles du Congo, Petro SA and Petroci. The debenture carries a stated interest rate of 15% p.a., matures on November 19, 2009 and is convertible into common shares of Prevail at $0.15 per share. If the full debenture plus interest is converted, the Company will acquire 2,300,000 common shares, which will consist of 5.85% of the common shares, calculated on a fully diluted basis.
- On July 17, 2008 the shares were listed under the symbol SDX on the TSX Venture Exchange.
- 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 $30,924,447, after deduction of the agents' closing costs, legal, accounting and other professional fees of approximately $1,421,742 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.
- On March 23, 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 24, 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. This transaction brought the Company's interest in the EWA Concession Agreement to its present level of 75%. Under the terms of the Joint Operating Agreement, Sea Dragon undertook responsibility for 100% of the costs of the next two wells to be drilled at the concession.
- In accordance with the terms of the Concession Agreement, the Company requested Dover provide an election to EGPC that it would enter the Second Exploration Phase of the Concession Agreement. On January 15, 2008, the Company put in place a letter of guarantee in the amount of $US3,483,114 ($C3,524,215) (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).

MANAGEMENT STRATEGY AND OUTLOOK FOR 2009

Sea Dragon has developed a strategy to focus on acquiring interests in producing properties or properties that are close to production. It is management's belief that oil assets today are undervalued reflecting the current economic downturn and this presents an opportunity to acquire production assets at favourable prices. This will give Sea Dragon a strong position as the economy turns more favourable. In the meantime the cash flow from producing assets will help to pay the operating costs and provide working capital for the Company. To these ends management has undertaken the following measures:

- Management is pursuing other investment opportunities in producing properties, primarily in Egypt. The reputation and experience of our board, executive and supporting consultants has opened discussions with other operators, concession holders and the government of Egypt that could lead to Sea Dragon taking an active role as investor and/or operator of other concessions. Each opportunity is evaluated for its economic potential, risks and Sea Dragon's capacity to undertake the project.
- Some investment projects may require additional sources of financing and the Company is considering all options such as partnership or joint venture financing on a project by project basis, issuance of common shares, or private funding that will allow the Company to move forward without undue dilution of its capital stock.
- Given the new focus on acquiring and developing resource properties, management is reviewing its operating and administrative costs for opportunities to reduce costs and realign them with this strategy.

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 May 29, 2009 *(Unaudited)*	As at March 31, 2009 *(Unaudited)*	As at December 31, 2008 *(Audited)*
Total Common Shares	Unlimited	144,509,405	144,509,405	144,509,405
Total Options and Warrants [(1)]	N/A	13,981,671 (Note 1)	13,981,671 (Note 1)	13,981,671 (Note 1)

[(1)] Options and warrants expire as follows: (i) 1,378,921 on January 17, 2010, (ii) 7,902,750 on July 17, 2010 and (iii) 4,700,000 on July 28, 2013.

OPERATING RESULTS

Loss from operations

The Company incurred a net loss of $12,804,668 ($0.09 per share) for the second quarter of 2009 compared to a net loss of $1,538,889 ($0.03 per share) for the same period of 2008. Factors contributing to the net loss include:

Total general and administrative expenses for the quarter were $1,829,157 (2008 -$717,282). The increase in expenses was due to a number of factors including:

(i) Professional fees, which includes consulting, legal and accounting expenses, increased to $620,360 (2008 - $185,810). Accounting and legal costs were relatively unchanged from the prior period. Consulting costs accounted for 60% of the increase as the Company expanded its operations and required manpower and expertise through the use of outside consultants for geological and geophysical services to evaluate a number of project options, engineering consultants hired for our drilling operations in Egypt. The Company also uses outside consultants for information technology and investor relations services.

Selected Unaudited Financial Information for the Period Ended June 30, 2009 and the Year ended December 31, 2008

$000	**Six months ended June 30, 2009**	Six months ended June 30, 2008	Year ended December 31, 2008
Expenses			
General and administrative			
Wages	**425**	177	508
Accounting and legal	**220**	264	549
Consulting fees	**400**	33	328
Travel and promotion	**194**	92	316
Letter of Guarantee expense	**126**	69	
Interest expense	**125**	-	186
Other	**340**	82	294
	1,830	717	2,181
Impairment of oil and gas properties	**10,620**	-	20,409
Foreign exchange (gain) loss	**349**	(12)	(1,859)
Stock based compensation	**174**	-	151
Depreciation and depletion	**7**	-	2
Accretion of debentures	**-**	903	902
Loss before other items	**(12,980)**	(1,608)	(21,786)
Interest income	**175**	69	459
Total	**(12,805)**	(1,539)	(21,327)

(i) Wages increased to $425,121 (2008 - $89,200) due to an increase in the number of staff positions relative to the prior period;

(ii) Consulting fees increased during the first six months as the Company acquired the geophysical and engineering services to assist with the evaluation of possible resource property acquisitions;

(iii) Costs for travel expenses increased to $193,200 (2008 - $65,167) and is expected to remain around this level as management and consultants execute due diligence activities for development opportunities in Africa and other overseas locations, as well as more frequent trips to Egypt by technical and accounting staff;

(iv) Quarterly maintenance fees related to two Letters of Guarantee required to be put up by the Company amounted to $125,701 during the period (2008 – 69,325);

(v) The Company borrowed US$5,860,000 ($C7,019,180) on January 13, 2009. The loan was subsequently repaid in May. Interest expenses incurred during the period were US$101,148, (CAD$125,103). There were no similar expenses in the comparable period in 2008;

(vi) Other general expenses increased to $339,669 (2008 – $81,648). The increase in other expenses is attributable to administration and office expenses in both Canada and Egypt.

During the first quarter of 2009 Sea Dragon assessed its exploration efforts on the EWA Concession in Egypt. Although hydrocarbons were found they were determined to be uneconomic. Management decided that with little time remaining prior to expiration no further exploration on the block would be undertaken. Consequently the Company wrote off the costs, direct and indirect, associated with the acquisition of and exploration in the EWA concession of $20,408,609 for the year ended December31, 2008 and $10,620,278 for the six months ended June 30, 2009. These costs were originally capitalized as property and equipment assets under the full cost method of accounting for oil and gas assets. No similar write-downs were recorded in the first quarter of 2008.

The foreign exchange (gain) or loss is calculated on the cash and term deposits held in $US as well as the effects of currency exchange rates on other monetary accounts being $US denominated receivables, accounts payables and accrued liabilities. Of this, $139,739 was an unrealized foreign exchange loss primarily due to the decline in the US$ relative to the C$ during the first and second quarters when applied to the $US cash balances held by the Corporation. Foreign exchange gains and losses are considered to have been realized when the funds are expended or are converted to Canadian funds.

During 2008 the Company issued 4,200,000 stock options to employees and 500,000 to consultants with an estimated fair value of $1,141,630. These stock options vest over a three year period and the stock based compensation expense of $174,195 (2007 – Nil) is the portion that was amortized during the period ended June 30, 2009.

The accretion expense, being the amortization of the costs related to the conversion feature of the $7,500,000 Convertible Debenture was Nil for the current period, as compared to $902,262 in the comparable period of 2008.

SUMMARY OF QUARTERLY RESULTS *(unaudited)*

$000 except per share amounts	Total Assets	Working Capital	Cash Flow from Operations	Net Income (Loss)	Net Income (Loss) per Share ($0.00)
Quarter ended:					
06/30/2009	**10,639**	**1,839**	**(1,759)**	**(12,805)**	**(0.09)**
03/31/2009	26,902	(9,386)	(873)	(11,665)	(0.08)
12/31/2008	29,814	10,096	(1,832)	(21,327)	(0.13)
09/30/2008	42,007	22,697	(978)	(648)	(0.00)
06/30/2008	11,437	(7,856)	(61)	(458)	(0.01)
03/31/2008	7,989	(7,351)	(289)	(1,081)	(0.03)
12/31/2007	8,189	(2,350)	(755)	(949)	(0.02)

Cash Flow and Cash position

Operating

Funds flow from operations was an outflow of $1,759,179 (2008 - $355,769) and was comprised of G&A expenses of $1,829,157 (2008 - $81,648) (discussed above), offset by interest revenue of $175,308 (2008 - $,63,039) and realized foreign exchange gains of $Nil (2008 – 11,616).

Financing

Cash provided from financing activities for the six months ended June 30, 2009 was an inflow of $110,754 (2008 – cash outflow of $192,259) which was due to a realized foreign exchange gain on repayment the US$ denominated line of credit. In January 2009, Sea Dragon was obligated to remit a cash call payment to the operator of the EWA Concession in the amount of $US 5,860,000 shortly after the exchange rate for the $US had increased. Using the demand loan the Company borrowed $7,019,180 in order to finance the remittance. The loan was repaid in May 2009 with $6,908,054 after the exchange rate had declined in favour of the $C.

Investing

Cash used in investing activities for the six months ended June 30, 2009 was $12,966,603 (2008 - $3,884,584). This increase was primarily due to:

(i) Expenditures of $11,340,113 (2008 - $567,522) for direct drilling expenses, and indirect, shared and administrative costs on the EWA concession in Egypt;

(ii) The addition of $4,843,572 for working capital items related to the EWA concession.

(iii) And the reduction of US$2,500,000 (CAD$3,572,100) for letters of credit.

Liquidity

At June 30, 2009 the Company had an unrestricted cash balance of $2,118,396 (2008 - $19,060), a restricted cash balance of $6,613,288 (2008 - $3,539,811) and working capital of $1,839,104 (2008 – working capital deficiency of 7,855,647).

During the past six months and up to the date of this report, the Company has made a concerted effort to release the restrictions on the restricted cash balances. With the repayment of the demand loan in May (item b., below), and the reduction of $2.5 million for the Letter of guarantee to TransOcean (Item a., below), the restricted cash balance has decreased from $10.1 million at December31, 2009 to $6.6 million by June 30, 2009. Subsequent to the end of the second quarter, the Company has remitted the final payment to TransOcean, the rig operator for the EWA 5-X well who has taken steps to cancel the $US 4.0 million TransOcean After this the only restricted funds will consist of the $US1.5 million EGPC Letter of Credit (item b., below) and a minimum fund balance of $90,000 to secure Company credit cards (item c, below).

When the Company receives the funds under the EGPC letter of credit and clears the TransOcean LG its unrestricted funds available will be approximately $6.8 million. In addition, the Company has drilling materials at the EWA site that it expects can be sold for up to $US 1.0 million and an operator receivable for $US0.6 million.

The restricted cash balance of $6,613,288 is comprised of

$000	Terms	Amount ($US)	Amount($C)
a)	Minimum cash balance in $US denominated account	4,000	4,624
b)	Minimum cash balance in $US Denominated account	1,522	1,759
c)	Minimum cash balance in $C denominated account	199	230
		5,721	6,613

a. The letter of guarantee for $US4,000,000 which expires on September 12, 2009 was granted as security for the contractor's payment for the Transocean 103 off-shore drilling rig used to drill the East Wadi Araba 5-X well in 2008 and 2009. As of June 30, 2009, Sea Dragon owed the owner of the TransOcean rig ("the owner") $1.0 million. Negotiations over disputed amounts were resolved in August 2009 and a final payment of $US533,000 was remitted. The Company expects TransOcean will cancel the Letter of Guarantee within two weeks of the receipt of these funds.

b. The letter of credit for $US1,521,875 was provided to the Egyptian General Petroleum Corporation ("EGPC") as security for the financial commitment of Exploration phase of the East Wadi Araba concession in Egypt. As Sea Dragon has met the drilling and expenditures commitments, the Company is waiting for EGPC to complete the audit of expenditures in order to release the letter of credit.

c. Security for corporate credit cards is a minimum cash balance of $C230,000. Subsequent to the end of the second quarter. The Company reduced the credit card limits to approximately $90,000 in order to reduce the restriction on the cash balance.

Off-Balance Sheet Arrangements

The Company does not use off-balance sheet arrangements.

Capital investment in property & equipment

$000		June 30, 2009 (Unaudited)		December 31, 2008 (Unaudited)
Resource properties, capitalized costs before write-down for impairment of resource costs	**$**	**32,474**	$	22,756
Impairment of resource costs		**(31,029)**		(20,409)
Resources properties, net		**1,445**		2,347
Furniture and equipment		**40**		44
Property & equipment, net	**$**	**1,485**	$	2,391

The capitalized costs for resource properties after the write-down for impairment consist of the following amounts:

$000		June 30, 2009 (Unaudited)		December 31, 2008 (Unaudited)
Amount receivable	**$**	**728**	$	-
Drilling materials and supplies		**325**		113
Prepaid expenses, deposits and amounts paid in excess of costs		**392**		10
Direct drilling costs		**-**		2,263
Administrative and consulting				643
	$	**1,445**	$	3,029

The capital investment in resource properties was $564,000 in the second quarter (208 - $393,000) and consisted of late received costs and capitalized G & A for the EWA Concession in Egypt. Although originally budgeted at a cost of $US 12.5 million, the total costs are estimated to be approximately $US17.5 million. The increase in costs was due to:

- After commencement, the Company revised the program to explore two different target zones, the Micoene and pre-Miocene, by drilling two well bores from the same location. After the first location was reached, a second hole was initiated with a side track from above the first location to the deeper Kareem and Rudheis formations. Although this increased the costs of the well, it enabled the Company to investigate the two locations and meet its obligations under the Concession Agreement to drill two wells by July 2009 at a lesser cost than if the two wells had been drilled from different locations.
- The well encountered technical difficulties at the beginning of the side bore and while drilling and completing the well in the Rudheis zone. The latter costs arose because the Rudheis shale geology required extra casing in order to protect the downhole equipment and reduce the risk of losing the hole.

Significant Acquisitions

Sea Dragon acquired a further 35% interest in the Concession Agreement as a result a 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. This transaction resulted in an increase to Exploration and development expenses of $4,080,007.

DEBT INSTRUMENTS AND COMMITMENTS

During the first quarter of 2009, the Company borrowed $7,019,108 to fund its January cash call of $US5,860,000. The loan is secured by funds on deposit. The loan was taken out as a currency hedge when the exchange rate for the $US had increased and was repaid in May 2009 using $6,908,354 when the exchange rate returned to lower levels. The loan was repaid during the second quarter using $C6,908,000.

Commitments

- The Company has provided a letter of credit in favour of the EGPC in the amount of US$1,521,875. The Company believes that with the completion of the 5-X well in February 2009 the Company has met these performance and expenditure obligations and it will reclaim the balance of the deposit in 2009. (See Discussion of Liquidity, item c.)
- On September 30, 2008 the Company deposited an additional Letter of Guarantee for US$6,500,000 ($C6,708,000), subsequently reduced to $US4,000,000 ($C4,624,000) as required under the Assignment Agreement dated August 28 for the drilling rig used for the EWA Concession. (See Discussion of Liquidity, item b.)
- The company pledged $90,000 as a security deposit held for corporate credit cards issued to various officers and directors to be used strictly for travel and promotion expenses. (See Discussion of Liquidity, item d.)
- The Company has entered into an agreement to lease office in 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 $13,721.

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 the Company when it concluded that the Plaintiffs did not have a legal right to initiate a court action in respect of a contractual dispute involving the EWA concession in Egypt. This matter accordingly moved to arbitration in Alberta where on April 6, 2009 the arbitration tribunal stayed the proceedings indefinitely following the failure of the plaintiffs to fund their share of the costs of the arbitration.

The Company has taken the position that this action no longer constitutes a contingent claim and will not become a contingent claim unless the Plaintiffs attempt to resurrect the arbitration tribunal. Accordingly, no provision for a loss has been made in the unaudited interim financial statements for the quarter ended March 31, 2009.

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changover to International Financial Reporting Standards ("IFRS") from GAAP will be required for publicly accountable enterprises' interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition from current GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations. The Company has appointed internal staff to lead the IFRS conversion project who began attending CICA and other training program related to the IFRS conversion. At this time Sea Dragon is evaluating the impact of the differences between the IFRS and GAAP and assessing the need for amendment to existing accounting policies and reporting controls in order to comply with IFRS.

During 2009, the Company will develop a detailed plan for the implementation and conversion to IFRS. As part of the plan, it will be required to prepare a transition balance sheet as at December 31, 2009 which will be representative of the opening balance sheet as at January 1, 2010, enabling comparative information for financial reporting in 2011.

The following IFRS standards are expected to have the most significant impact on Sea Dragon.

- IFRS 1 – First time adoption of IFRS
- IFRS 2 – Share based payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 16 – Property, plant and equipment
- ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
- IAS 36 – Impairment of assets
- IAS 37 – Provisions, contingent liabilities and contingent assets

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.

PROPERTY AND EQUIPMENT

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. 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.

Depreciation, Depletion and Impairment

Capitalized costs within each country will be depleted and depreciated on 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 will be converted to equivalent volumes of petroleum based upon relative energy content. Depletion and depreciation is calculated using the capitalized costs, including estimated asset retirement costs, plus the estimated future costs to be incurred in developing proved reserves, net of estimated salvage value. Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred.

Furniture and fixtures are depreciated at declining balance rates of 20 to 30 percent.

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 2008 or 2007 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. For the six months ended June 30, 2009 an impairment charge of $10,742,289 (2008 - $nil) was recorded against the EWA Concession (Note 7).

FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash and restricted cash are classified as held-for-trading and are measured at fair value which equals the carrying value and any gains or losses are recognized in earnings in the period they occur. Accounts receivable are classified as loans and receivables which are measured at amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. The Investment is classified as held-for-trading which is measured at fair value.

The Company expenses transaction costs related to the acquisition or issuance of held-for-trading financial instruments in the period in which the costs are incurred. The Company adds transaction costs related to the acquisition or issuance of all other categories of financial instruments.

BUSINESS RISK ASSESSMENT

There are a number of inherent business 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 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.

Commodity Price Risk

When the Company has producing resource properties and commences to sell crude oil or natural gas, its revenues will be significantly affected by the prevailing world commodity prices.

Commodity prices will also be a factor in the Company's efforts to raise additional capital. Management takes the availability of investment capital into consideration as it evaluates acquisition opportunities so as to minimize the possibility of becoming illiquid by acquiring assets that may require more capital than the Company can provide.

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 six months ended June 30, 2009. The Corporation makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at June 30, 2009.