SEA DRAGON ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(Restated)

The following management's discussion and analysis (the "MD&A") dated November 30, 2009 and amended April 12, 2010 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 nine months ended September 30, 2009 and September 30, 2008. This MD&A should be read in conjunction with the unaudited restated financial statements for the nine months ended September 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 thousands of Canadian Dollars unless otherwise noted.

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

Restatement

The Company has restated its interim financial statements for the three and nine months ended September 30, 2009 to revise the characterization and presentation of EWA Concession assets and the timing and allocation of foreign exchange gains and losses and impairment of oil and gas properties.

The presentation of certain comparative balances has been amended to reflect the changes in presentation of the 2009 and 2008 comparative financial information.

Selected quarterly information		**2009**			**2008**		
$C 000, except share and per share information	**3rd QTR**	2nd QTR	1st Qtr	4th Qtr	3rd Qtr	2ndt Qtr	1st Qtr
Unrestricted cash balance at period-end	**1,969**	2,118	5,885	16,733	22,657	19	285
Working capital (deficiency)	**6,729**	1,839	(9,386)	12,175	22,697	(7,855)	(7,351)
Restricted cash	**4,442**	6,613	18,678	10,081	8,279	3,540	3,582
Total assets	**8,602**	10,639	26,902	29,814	42,007	11,438	7,989
Shareholders' equity	**8,196**	10,237	11,286	22,868	41,942	3,526	325
Share capital	**44,522**	44,444	44,444	44,444	44,043	5,608	1,948
Common shares outstanding							
Basic	**144,702,905**	144,509,405	144,509,405	144,509,405	144,509,405	64,747,500	40,747,500
Diluted	**161,991,076**	158,491,076	158,491,076	158,491,076	158,491,076	Note (1)	Note (1)
Weighted average common shares outstanding							
Basic	**144,517,039**	144,509,405	144,509,405	144,509,405	134,015,636	58,581,566	40,747,500
Diluted	**158,978,255**	158,491,076	158,491,076	158,491,076	143,056,693	Note (1)	Note (1)
Retained earnings (Deficit)	**(38,033)**	(35,818)	(34,678)	(23,013)	(3,873)	(3,225)	(2,767)
Cash flow from operations	**(1,109)**	(885)	(873)	(499)	(1,786)	(61)	(298)
Funds flow from operations(2)	**(1,567)**	(1,028)	(836)	(277)	(575)	(433)	(203)
Basic, per share(2)(3)	**(0.01)**	(0.01)	($0.006)	($0.002)	($0.004)	($0.011)	($0.050)
Capital expenditures	**668**	564	10,777	7,243	2,575	96	388
Net income (loss)	**(2,215)**	(1,141)	(11,665)	(19,140)	(648)	(458)	(1,080)
Basic, per share(3)	**(0.01)**	(0.01)	($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 nine months of 2009 the company attained the following milestones:

- Adopted a strategy to seek out producing or near to production properties, primarily in Northern 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.
- 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 on-shore 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 plus adjustments for 10% of all operating costs, revenues and capital expenditures incurred from July 1, 2010 until the closing date. The acquisition is subject to the necessary approvals from the Egyptian government.

  The Company completed the acquisition on December 21, 2009 (the "completion date"). The final adjusted purchase price was $US 14.76 million. The Company filed a Business Acquisition Report for this acquisition on April 12, 2010 which may be viewed on SEDAR.
- The Company has obtained the release of nearly all of the restrictions on its cash balances. During the third quarter the Letter of Guarantee provided to the Egyptian General Petroleum Corporation ("EGPC") for $US1.52 million was released, and subsequent to the third quarter, on October 13th, 2009 the TransOcean Letter of Guarantee was reduced by $US3.8 million from $US4.0 million to $US 200,000. These Letters of Guarantee were secured by cash balances and Investment Deposits held by the Company's bank and were not available for general purposes. When the Letters of Guarantee are cancelled or reduced, the underlying deposits are released to the company's general cash balances and the restricted cash balance is reduced accordingly.
- The Company 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 relinquished the Concession on July 17, 2009.

Subsequent to the Third Quarter of 2009

- On November 6, 2009 the Company completed a private placement of 60,000,000 units at $0.25 per unit. Each unit consists of one common share and one half share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.50 for a period of 36 months from the closing date of the offer. Gross proceeds raised were $15.0 million and the net proceeds of $14.24 million after all related costs have been deducted will be used to fund the acquisition of Premier Egypt (NW Gemsa) B.V. and supplement working capital.
- On January 15, 2010 the Company issued 22,730,000 special warrants ("the Special Warrant Offering") for gross proceeds of $12,501, less the Underwriters' fee of $625 and other expenses estimated to be $300. Each Special Warrant will entitle the holder thereof to receive, subject to adjustment in certain circumstances, one (Common Share on the exercise of the Special Warrant for no additional consideration. In the event the Company is not qualified to issue the Common Shares under this offering by April 1, 2010, each warrant will be exercisable for 1.05 Common Shares for no additional consideration.

- On January 22, 2010, the Company received full payment of the principal and accrued interest of the convertible debenture issued by Prevail Energy Inc.

- On December 31, 2009, the Company, through its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd., entered into a farmout agreement ("the Farmout Agreement") with Dana Gas Egypt ("DGE") for the acquisition of a fifty (50%) percent participating interest in the Kom Ombo Concession ("the Kom Ombo acquisition"), Egypt for aggregate consideration of US$41,270, inclusive of DGE's share of costs incurred after June 30, 2009 in the amount of US$4,000 and subject to post-closing working capital adjustments, estimated to be approximately US$4,000. The effective date ("the Effective Date") of the Kom Ombo Acquisition is July 1, 2009. The closing date ("the Closing Date") of the Kom Ombo Acquisition was January 28, 2010.

  Pursuant to the terms of the Farmout Agreement, SD Kom Ombo has paid an initial instalment of US$10.0 million and has been registered as the legal holder of a fifty (50%) percent participating interest in the Kom Ombo Concession. The initial instalment of US$10 million was funded through the net proceeds of the Special Warrant Offering. The balance of the farmout consideration of US$27.27 million is due on April 30, 2010 subject to a 90 day period in which to cure any payment default. Failure to pay the balance of the consideration by the expiration of the 90 day cure period will result in the forfeiture of the Kom Ombo Assets and the forfeiture of the initial instalment amount without compensation to the Company. The balance of the farmout consideration is to be paid using a portion of the net proceeds of the April 2010 Common Share Offering, described below.

  In addition, SD Kom Ombo is required to pay US$4 million of DGE's share of costs incurred after the Effective Date in three instalments of US$1.33 million each on the first three cash calls to be issued after the Closing Date of the Kom Ombo Acquisition. Under the terms of the Farmout Agreement, approximately US$16.2 million of the aggregate consideration may be fully cost recoverable by SD Kom Ombo out of future production proceeds generated from the Kom Ombo Concession.

  SD Kom Ombo is also required to deliver to DGE a Letter of Guaranty issued from a commercial bank, in the amount of US$4.5 million, to cover SD Kom Ombo's 50% share of the Letter of Guaranty issued by DGE to Ganoube El Wadi Holding Petroleum Company ("GANOPE"), in the amount of US$9 million. The Letter of Guaranty issued to GANOPE by DGE is required pursuant to the Kom Ombo Concession Agreement, to secure the maximum amount of expenditures that DGE has committed to spend under the third exploration phase of the Kom Ombo Concession.

  The Company filed a Business Acquisition Report for this acquisition on April 12, 2010 which may be viewed on SEDAR.

- On March 26, 2010, Sea Dragon announced that it had entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase on a bought deal basis pursuant to a short form prospectus 142,500,000 common shares ("Common Shares") at a price of $0.40 per Common Share for gross proceeds to Sea Dragon of approximately $57 million ("the April 2010 Common Share Offering").

  The net proceeds of the Offering will be primarily used by the Company to fund the balance of the consideration owing by the Company pursuant to the Kom Ombo Acquisition in the amount of US$27,270 (subject to working capital adjustments estimated to be approximately US$4,000 for an aggregate amount of approximately US$31,270), to pay DGE's share of costs on the Kom Ombo Concession incurred after the Effective Date in the amount of US$4,000 and to fund the Company's capital expenditure program for 2010 in respect of Kom Ombo and NW Gemsa.

- The Company's capital expenditure program for 2010 is approximately US$19,000, of which US$17,000 is anticipated to be spent on the development of the Kom Ombo Concession and the remainder which is anticipated to be spent on the development of the NW Gemsa Concession in the amount of US$2,000 (exclusive of operating expenditures). The Company's capital expenditure program in respect of the Kom

Ombo Concession includes, but is not limited to, a drilling program of up to 10 development wells expected to commence in mid-April 2010, expanding production facilities to accommodate the possible increase in production through the success from drilling development wells, the acquisition of additional 3-D and 2-D seismic and the drilling of exploration wells. With respect to the NW Gemsa Concession, the Company's capital expenditure program includes, but is not limited to, the drilling of up to 3 delineation wells, the drilling of an injector well and expanding the production facilities.

($US million) **Activity**	**Kom Ombo US$**	**NW Gemsa US$**	**Total $US**
Seismic Acquisition and Reprocessing	3.0	0.0	3.0
Drilling Exploration Wells	1.5	0.5	2.0
Drilling Development Wells	10.0	1.0	11.0
Upgrading processing Facilities	2.5	0.5	3.0
Total	**17.0**	**2.0**	**19.0**

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.

$000	Three Months ended September 30 2009	2008	Nine Months ended September 30 2009	2008
Cash flow provided by (used in) operating activities	**(1,109)**	(1,786)	**(1,507)**	(2,240)
Changes in non-cash working capital	**(458)**	1,211	**(1,306)**	1,029
Funds flow from operations	**(1,567)**	(575)	**(2,813)**	(1,211)

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 January 15, 2010 the Company issued 22,730,000 special warrants for gross proceeds of $12,501 less the Underwriters' fee of $625 and other expenses estimated to be $300. Each Special Warrant will entitle the holder thereof to receive for no additional consideration, subject to adjustment in certain circumstances, one Common Share on the exercise of the Special Warrant. In the event the Company is not qualified to issue the Common Shares under this offering by April 1, 2010, each warrant will be exercisable for 1.05 Common Shares for no additional consideration.

- On November 6, 2009 the Company completed a private placement of 60,000,000 units at $0.25 per unit. Each unit consists of one common share and one half share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.50 for a period of 36 months from the closing date of the offer. Gross proceeds raised were $15.0 million and the net proceeds of $14.24 million after all related costs have been deducted will be used to fund the acquisition of Premier Egypt (NW Gemsa) B.V. and supplement working capital.

- 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 on-shore 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 plus adjustments for 10% of all operating costs, revenues and capital expenditures incurred from July 1, 2010 until the closing date. The acquisition is subject to the necessary approvals from the Egyptian government. The Company completed the acquisition on December 21, 2009 (the "completion date").

  The effective date of the acquisition is July 1, 2009. Sea Dragon is entitled to receive its 10% share of revenues from July 1, 2009 forward, and will be responsible for the capital and operating expenditures. During the period from July, 2009 until the completion date, Premier Egypt (N W Gemsa) will receive the revenues and pay the cash calls. On the completion date, Sea Dragon increased the payment made to Premier by the aggregate amount of any cash call payments made by Premier and reduced it by any revenues received in respect of the period commencing on July 1, 2009. The final adjusted purchase price was $US 14.76 million.

- 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. As a result the Company has written-off $31.141 million 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. This operation completed its obligations under the Concession Agreement.

- On December 22, 2008 the Company acquired a $300 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 SA. 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. Prevail repaid the debenture and accrued interest in January 2010.
- On July 17, 2008 the Company's 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 million. A total of 58,333,334 common shares were issued at a price of $0.60 per share. Net proceeds of the offering were $30.9 million, after deduction of the agents' closing costs, legal, accounting and other professional fees of approximately $1.4 million and the agents' commission of approximately $2.1 million 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 million 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 $US 3,483 ($C 3,524) (the "BMO Letter of Guarantee") in favour of EGPC for this election and the election was granted. On August 19th, 2008, the Letter of Guarantee to was reduced to US$1,521 (CDN$1,571). This Letter of Guarantee was released in the third quarter of 2009, the funds were transferred to the Company's general cash balance and the restricted funds were reduced accordingly.

MANAGEMENT STRATEGY AND OUTLOOK FOR 2009

Sea Dragon has developed a strategy to focus on acquiring interests in producing properties or properties that are either in or 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 or near to properties, primarily in Northern Africa. 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 September 30, 2009** ***(Unaudited)***	As at December 31, 2008 *(Audited)*	As at March 23, 2010 (Note 2) *(Unaudited)*
Total Common Shares	Unlimited	**144,702,905**	144,509,405	208,192,358
Total Options and Warrants	N/A	**17,288,171 (Note 1)**	13,981,671	65,102,250

Note 1: Options and warrants expire as follows: (i) 7,709,250 on July 17, 2010 and (ii) 4,700,000 on July 28, 2013 (iii) 3,500,000 on August 24, 2014 (iv) 1,750,000 expire November 9, 2014.

Note 2: Subsequent to the third quarter, and to the date of this MD&A, the following transactions occurred:

a) On November 6, 2009 the Company completed a private placement of 60,000,000 units at $0.25 per unit. Each unit consists of one common share and one half share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.50 for a period of 36 months from the closing date of the offer. Gross proceeds raised were $15,000 and the net proceeds of $14,240 after all related costs have been deducted will be used to fund the acquisition of Premier Egypt (NW Gemsa) B.V. and supplement working capital.

b) On November 9, 2009 the Company granted 1,750,000 stock options with an exercise price of $0.50 per option under the Employee Stock Option Plan to certain officers, directors and individuals providing consulting services. The options vest in three equal amounts on each of the first three annual anniversaries of the issuance, and expire on November 9, 2014.

c) Subsequent to September 30, 2009, 3,489,453 warrants were exchanged for 3,489,453 shares at an exercise price ranging from $0.20 to $0.55.

d) On January 25, 2010 the Company completed a private placement of 22,730,000 special warrants at $0.55 per warrant. Each special warrant will be automatically exercised for no additional consideration on the earliest of (a) the third business day after the date that a receipt is issued for the Final Prospectus qualifying the common shares to be issued and (b) the date that is four months and one day following the Closing. Gross proceeds raised were $12,501 and net proceeds of $11,576 will be used to fund the acquisition of a 50% participating interest in the Kom Ombo Concession and supplement working capital.

e) On January 17, 2010, 3,500,000 warrants expired.

OPERATING RESULTS

Loss from operations

The Company incurred a net loss of $15,020 ($0.10 per share) for the third quarter of 2009 compared to a net loss of $2,186 ($0.03 per share) for the same period of 2008. Factors contributing to the net loss include:

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

$000	**Nine months ended September 30, 2009**	Nine months ended September 30, 2008	Year ended December 31, 2008
Expenses			
General and administrative			
Wages	**664**	323	508
Accounting and legal	**290**	384	549
Consulting fees	**706**	142	328
Travel and promotion	**282**	169	316
Letter of Guarantee expense	**166**	119	-
Other	**559**	222	294
	2,667	1,359	1,995
Impairment of oil and gas properties	**10,733**	-	20,409
Foreign exchange (gain) loss	**1,371**	(56)	(1,859)
Stock based compensation	**296**	73	151
Depreciation and depletion	**16**	-	2
Interest expense	**125**		186
Accretion of debentures	**-**	902	902
Loss before other items	**(15,208)**	(2,278)	(21,786)
Interest income	**188**	92	459
Total	**(15,020)**	(2,186)	(21,327)

General and administrative expenses

Total general and administrative expenses for the quarter were $2,667 (2008 -$1,359). The increase in expenses was due to a number of factors including:

(i) Wages increased to $664 (2008 - $323) due to an increase in the number of staff positions relative to the prior period;

(ii) Consulting, expenses, increased to $706 (2008 - $142). The Company's focus on acquiring and developing resource properties has increased the use consultants for geological, geophysical and reservoir analysis to evaluate a number of project options.

(iii) Costs for travel expenses increased to $282 (2008 - $169) as management and consultants execute due diligence activities for development opportunities in Africa and other overseas locations;

(iv) Quarterly maintenance fees related to two Letters of Guarantee required to be put up by the Company amounted to $166 during the period (2008 – $119);

(v) Other general expenses increased to $559 (2008 – $222). The increase in other expenses is attributable to support, administration and office expenses in both Canada and Egypt.

Impairment of oil and gas properties

During 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 given the lack of evidence of oil migration in the area and the fact it had fulfilled its obligation under the Concession Agreement, the Company decided that 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 $20,409 for the year ended December 31, 2008 and $10,733 for the nine months ended September 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 third quarter of 2008.

Foreign exchange (gain) loss

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, $1,162 was an unrealized foreign exchange loss primarily due to the decline in the US$ relative to the C$ during the year to date when applied to the $US working capital balances held by the Company. Foreign exchange gains and losses are considered to have been realized when the funds are expended or are converted to Canadian funds.

Stock based compensation

The Company granted 4,700,000 stock options in July 2008 and 3,500,000 stock options in August 2009 under the Employee Stock Option Plan. These stock options vest over a three year period and the value of the options, calculated using the Black-Scholes method at $1,142 and $572, respectively, is amortized evenly over the three year vesting period. The increase in the stock based compensation expense in 2009 of $223 primarily reflects the amortization of the value over a full nine months in 2009 as compared to less than three months in 2008.

Interest Expenses

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

Accretion of debentures

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:					
09/30/2009	**8,602**	**6,729**	**(1,109)**	**(2,215)**	**(0.01)**
06/30/2009	10,639	1,839	(885)	(1,141)	(0.01)
03/31/2009	26,902	(9,386)	(873)	(11,665)	(0.08)
12/31/2008	29,814	12,175	(499)	(21,327)	(0.13)
09/30/2008	42,007	22,697	(1,786)	(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 $1,567 (2008 – outflow of $575) and was comprised of G&A expenses of $2,667 (2008 - $1,359) (discussed above), interest expense of $125 (2008 Nil) and realized foreign exchange loss of $209 (2008 – gain of $56) offset by interest revenue of $189 (2008 - $91).

Financing

Cash provided from financing activities for the nine months ended September 30, 2009 was an inflow of $51 (2008 – cash inflow of $31,593 from the IPO financing) pursuant to the exercise of warrants for common shares during the third quarter.

Investing

Cash used in investing activities for the nine months ended September 30, 2009 was $13,308 (2008 - $11,147). This increase was primarily due to:

(i) Expenditures of $12,009 for direct drilling expenses, and indirect, shared and administrative costs on the EWA concession in Egypt;

(ii) $6,420 for the reduction of the joint venture's accounts payable balance at December 31, 2009; and

(iii) The addition to the unrestricted cash balance of $C5,121 by reducing the balance of funds on deposit to secure two Letters of Credit, described in "Liquidity" below.

Liquidity

At September 30, 2009 the Company had an unrestricted cash balance of $1,969 (2008 - $22,657), a restricted cash balance of $4,442 (2008 - $8,279) and working capital of $6,729 (2008 – working capital $22,697).

During the past nine 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. The $US1.5 million EGPC Letter of Credit was released on September 1, 2009. The TransOcean Letter of Guarantee (Item a, below) was reduced from $US6.5 million to $4.0 million. Prior to the end of the year, the amount was further reduced by $US3.8 million to $US200 and was released in full in January 2010. A minimum fund balance of $98,000 secures the Company credit cards (item c, below).

When the Letters of Guarantee are cancelled or reduced, the underlying deposits are released to the company's general cash balances and the restricted cash balance is reduced accordingly.

The restricted cash balance of $4,442 is comprised of the following:

$000	Terms	Amount ($US)	Amount($C)
a)	TransOcean letter of Guarantee	4,000	4,344
b)	Minimum cash balance in $C denominated account	90	98
		4,090	4,442

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 $US 200 in October, 2009 and extended to November 28, 2009.

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

A letter of credit for $US1,522 ($C1,759) that 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 was released on September 1, 2009.

Off-Balance Sheet Arrangements

The Company does not use off-balance sheet arrangements.

Capital investment in property & equipment

$000	September 30, 2009	December 31, 2008
Furniture and fixtures	**113**	45
Accumulated deprecation	**(16)**	(1)
Furniture & fixtures, net	**97**	44
Exploration and development expenses	**32,113**	20,677
Write-down of EWA Concession costs	**(31,141)**	(20,409)
Oil and gas properties, net	**972**	268
	1,069	312

The capital investment in resource properties was $668 in the third quarter (2008 - $2,575) and consisted of late received costs and capitalized G & A for the EWA Concession in Egypt. Although originally budgeted at a cost of $US 10.0 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.

DEBT INSTRUMENTS

The Company has available a $US denominated revolving demand loan to a maximum of $US 6 million. 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. The balance outstanding as at September 30, 2009 is Nil.

COMMITMENTS

a. On August 19, 2009, Sea Dragon announced it had signed a sale and purchase agreement to acquire a 10% interest in the on-shore North West Gemsa Concession, located approximately 300 kilometres south-east of Cairo, Egypt. The acquisition will be made indirectly through the purchase of all of the issued and outstanding shares of a corporation that owns the 10% interest in the concession.

   The effective date of the acquisition was July 1, 2009. The purchase price is $US12.5 million plus 10% of all operating costs and capital expenditures incurred by the Concession Joint Venture after June 30, 2009 less any revenues received by the vendor for crude oil produced after June 30, 2009. The Company completed the acquisition on December 21, 2009. The final adjusted purchase price was $US14.76 million.

   Total expenditures for 2010 for the NW Gemsa concession are estimated at US$46,000 with the Company's 10% share being US$4,600 (inclusive of operating expenditures).

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.

c. The total 2010 gross budget in respect of the Kom Ombo Concession is estimated to be US$34,000 with the Company's 50% share being US$17,000.

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 two plaintiffs (the "Plaintiffs") against the Minister of Petroleum – Egypt, Dover and the Company (the "Defendants"). The Plaintiffs alleged, 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 September 30, 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 changeover 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 2009 or 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. For the nine months ended September 30, 2009 an impairment charge of $10,733 (2008 – 20,409) was recorded against the EWA Concession.

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