Sea Dragon Energy Inc.

Sea Dragon Energy Inc.
Interim Financial Statements
March 31, 2010
(Unaudited)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited comparative statements for the three months ended March 31, 2009.

Sea Dragon Energy Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)
(Unaudited)

$000	March 31, 2010	December 31, 2009
ASSETS		
Current		
Cash	5,283	2,092
Accounts receivable	2,621	2,401
	7,904	4,493
Prepaid share issuance costs	184	-
Acquisition deposit (Note 13a)	12,185	2,099
Restricted cash (Note 5)	115	325
Investment (Note 6)	-	300
Property and equipment (Note 7)	15,249	15,012
	35,637	22,229
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9c)	3,632	1,061
Basis of presentation and going concern (Note 1)		
Demand loan (Note 8)		
Commitments (Note 11)		
Subsequent events (Note 13)		
SHAREHOLDERS' EQUITY		
Common stock (Note 9b)	56,087	54,942
Special warrants (Note 9c)	11,640	-
Warrants (Note 9e)	4,706	5,506
Contributed surplus (Note 9f)	1,256	568
Deficit	(41,684)	(39,848)
	32,005	21,168
	35,637	22,229

Approved by the Directors:

"Said Arrata" (Signed)
Said Arrata

"Barry Swan" (Signed)
Barry Swan

The accompanying notes are an integral part of the consolidated financial statements

Sea Dragon Energy Inc.
Consolidated Statements of Loss, Comprehensive Loss and Deficit
(Expressed in Canadian Dollars)
(Unaudited)

$000	**Three Months ended March 31, 2010**	Three Months ended March 31, 2009
REVENUES		
Oil sales, net of royalties	**1,790**	-
EXPENSES		
Operating	**370**	-
General and administrative	**1,139**	908
Foreign exchange loss (gain)	**(314)**	144
Stock-based compensation	**185**	82
Additional shares (Note 9c)	**470**	-
Depletion and depreciation	**1,224**	4
Impairment of oil and gas properties	**-**	10,599
	3,074	11,737
Loss before other items and income taxes	**(1,284)**	(11,737)
OTHER INCOME		
Interest and other income	**4**	72
Loss before income taxes	**(1,280)**	(11,665)
Income taxes	**(556)**	-
NET AND COMPREHENSIVE LOSS	**(1,836)**	(11,665)
Deficit, beginning of period	**(39,848)**	(23,013)
Deficit, end of period	**(41,684)**	(34,678)
Basic and diluted loss per share	**($0.01)**	(0.08)
Weighted average common shares outstanding	**225,337,118**	144,509,486

The accompanying notes are an integral part of the consolidated financial statements

Sea Dragon Energy Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

$000	**Three Months ended March 31, 2010**	Three Months ended March 31, 2009
Cash provided by (used in)		
Operating Activities		
Net and comprehensive loss	**(1,836)**	(11,665)
Add non-cash items:		
Stock-based compensation	**185**	82
Depletion and depreciation	**1,224**	4
Unrealized currency (gain) loss	**(15)**	289
Additional shares	**470**	-
Impairment of oil and gas properties	**-**	10,599
	28	(691)
Changes in non-cash working capital (Note 12)	**(1,576)**	(38)
	(1,548)	(729)
Financing Activities		
Proceeds from issuance of shares, (Note 9b)	**848**	-
Proceeds from issuance of special warrants, net of issuance costs (Note 9c)	**11,640**	-
Prepaid share issuance costs	**(184)**	-
Demand loan	**-**	7,268
	12,304	7,268
Investing Activities		
Property and equipment expenditures	**(1,461)**	(11,132)
Restricted cash	**210**	(8,598)
Acquisition deposit (Note 13a)	**(10,086)**	-
Investment – convertible debenture	**300**	-
Changes in non-cash investing working capital (Note 12)	**3,457**	2,632
	(7,580)	(17,098)
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies	**15**	(289)
Net increase (decrease) in cash	**3,191**	(10,848)
Cash, beginning of period	**2,092**	16,733
Cash, end of period	**5,283**	5,885
Supplemental Information		
Interest paid	**-**	87

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

a. Basis of Presentation

The consolidated financial statements include the accounts of Sea Dragon Energy Inc. ("Sea Dragon" or the "Company") and its wholly owned subsidiaries, Sea Dragon Energy (NW Gemsa) B.V. and Sea Dragon Energy (Kom Ombo) Ltd., at March 31, 2010 and December 31, 2009 and for the three months ended March 31, 2010 and March 31, 2009. The consolidated financial statements are presented in accordance with the Canadian Institute of Chartered Accountants ("CICA") generally accepted accounting principles on the same basis as the audited consolidated financial statements as at and for the year ended December 31, 2009, except as outlined in Note 2. These interim consolidated financial statements do not contain all the disclosures required for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year-ended December 31, 2009. In these financial statements all dollar amounts are disclosed in thousands of Canadian dollars unless otherwise noted.

Sea Dragon was incorporated under the *Canada Business Corporations Act* on March 28, 2006 to engage in the business of oil and gas exploration, development and production. The Company's planned business operations involve acquiring and investing in prospects with proven and undeveloped oil and gas resources.

b. Ability to Continue as a Going Concern

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

For the three months ended March 31, 2010 the Company reported a net loss of $1,836 and incurred negative cash flow from operating activities of $1,548. The working capital at March 31, 2010 was $4,272 and its restricted cash was $115.

The future of the Company is dependent on its ability to successfully acquire, explore, develop and produce economically viable reserves, and, when necessary, raise capital. During the first quarter of 2010 the Company issued 22,730,000 special warrants and raised $11,640 net of related costs (Note 9c). Subsequent to the quarter, the Company completed an issuance of 142,500,000 common shares and raised approximately $53,775 net of related costs (Note 13c) of which approximately $US34,500 was committed to the final purchase remittance for the Kom Ombo working interest (Note 13a). The balance of the funds raised, $19,275, was added to the Company's working capital.

The Company believes that it will have sufficient resources to continue its oil and gas activities. These financial statements do not reflect the adjustments that would be necessary if the Company was not able to continue its operations; such adjustments may be significant.

NOTE 2 – CHANGES IN ACCOUNTING POLICIES

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 Section 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. Sea Dragon elected to adopt this Section on October 1, 2009.

b. International Financial Reporting Standards

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

The Company has determined that a significant impact of IFRS conversion is to Property and Equipment. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase. The Company currently follows full cost accounting as prescribed in Accounting Guideline 16, *Oil and Gas Accounting – Full Cost*. Conversion to IFRS may have a significant impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the development phases. In addition, the level at which impairment tests are performed and the impairment testing methodology will differ under IFRS. Another area that may be affected by IFRS is the currency in which reporting is based. One of the fundamental requirements of IFRS is that when a reporting entity prepares consolidated financial statements each individual entity included in those statements must determine its own functional currency and measure its own results and financial position in that currency. IFRS provides several guidelines to aid in determining the functional currency of each subsidiary. The impact of this has not yet been determined. IFRS conversion will also result in other impacts, some of which may be significant in nature. The Company is in the process of evaluating the impact on the Company's consolidated financial statements.

NOTE 3 – FINANCIAL RISK MANAGEMENT

a. Capital Management:

The Company defines and computes its capital as follows:

$000	**March 31, 2010**	**December 31, 2009**
Shareholder equity	**32,005**	21,168
Working capital[1]	**(4,272)**	(3,432)
Total capital	**27,733**	17,736

[1] Working capital is defined as current assets less current liabilities.

The Company's objective when managing its capital is to ensure it has sufficient capital to maintain its ongoing operations, safeguard the Company's ability to continue as a going concern in order to pursue the acquisition of interests in producing or near to production oil and gas properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its interests in Concession Agreements and to pursue other opportunities.

The Company monitors its capital structure and short-term financing requirements using cash flow from operations and working capital. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the relative size of the Company.

$000	**March 31, 2010**	December 31, 2009	March 31, 2009
Cash flow used in operating activities (three months)	**(1,548)**	(1,340)	(729)
Working capital (deficiency)	**4,272**	3,432	(8,095)

Working capital as at March 31, 2010 of $4,742 has increased from the December 31, 2009 balance of $3,432 primarily because the Company raised $11,640 net of related costs in a private placement during the quarter (Note 9c), which exceeded combined capital outlays for the Kom Ombo deposit (Note 13a) and cash calls and expenditures for the NW Gemsa working interest and increased amounts receivable from the ongoing sales of oil.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2010 compared to the year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

b. Financial Instruments:

The Company's financial instruments as at March 31, 2010 were comprised of cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities. The fair value of financial assets and financial liabilities and information related to risk management positions and discussions of risks associated with financial assets and financial liabilities are presented below.

(i) Fair Value

The carrying amount of the Company's financial assets and liabilities approximate their fair values due to the short terms to maturity.

(ii) Risks Associated with Financial Assets and Liabilities

Credit Risk

The Company is exposed to credit risk in relation to its cash, accounts receivable, and restricted cash and the risk of financial loss if the counterparty to a financial instrument fails to meet its contractual obligations. The Company maintains cash and restricted cash with a Major Canadian Chartered bank and therefore the Company considers cash to have credit risk which reflects the strength of the bank.

At March 31, 2010 the Company had a total accounts receivable balance of $2,621 of which 95% was due from two separate entities. Approximately $904 may be considered overdue, and the Company has recorded an allowance for doubtful collection of $370 because of the age of one of the amounts receivable.

Liquidity Risk

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

Management believes that the current working capital balance, funds raised by private placements in January 2010 (Note 9c) and April 2010 (Note 13c) and the recent addition of cash flows from production will be adequate to support these financial liabilities and commitments.

Market Risk

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

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of a change in commodity prices. The Company is exposed to commodity price risk to its proportionate share of production out of the NW Gemsa Concession.

Foreign Currency Exchange Rate Risk

The Company transacts business in both Canada and Egypt and purchases goods and services denominated in Canadian and US dollars. As a result, the Company has foreign exchange transaction and translation exposure. US dollar denominated transactions are translated into Canadian dollars at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Translation gains and losses are recognized in net income (loss) in the current period. The Company has $US1,070 cash ($CDN1,091) plus $US1,345 ($CDN1,480) and a net balance of $US denominated accounts receivable, less accounts payable of $US2,109 ($CDN2,144). As such, the Company has exposure to foreign currency exchange rate fluctuations at this time.

Sensitivity

The Company estimates a ten percent increase or decrease in the United States foreign exchange rate would have resulted in an unrealized foreign exchange gain or loss, respectively, of $CDN6 (2009 - $CDN508). The Company estimates a ten percent increase or decrease in the realized price of crude oil received would have resulted in an increase or decrease of its net income of $81 (2009 – Nil).

NOTE 4 – SIGNIFICANT ACQUISITIONS

On December 21, 2009 Sea Dragon acquired all of the common shares of Premier Oil Egypt (NW Gemsa) B.V. ("POE") for cash consideration of $15,749 ($US 14,760). POE's main asset was a 10 percent working interest in the North West Gemsa oil and gas concession in the Arab Republic of Egypt. The results of POE's operations have been included in the consolidated financial statements since that date. Revenues, expenses and capital expenditures arising between the effective July 1, 2009 date and the closing December 21, 2009 date have been recognized as adjustments to the purchase price. Sea Dragon primarily funded the acquisition with the proceeds of the Private Placement that closed on November 6, 2009 (Note 9b).

The acquisition has been accounted for using the purchase method with Sea Dragon as the acquirer. As at the date of this report the Company was in the process of obtaining information primarily related to the income tax implications of the acquisition.

The following table presents the preliminary allocation of the purchase price to the acquired assets and liabilities assumed, based on estimates of fair value:

$000	
Accounts receivable	2,036
Property and equipment	14,030
Accounts payable and accrued liabilities	(317)
	15,749

The Company expects to finalize the purchase price allocation during 2010. The allocation of the purchase price is based on preliminary data and could change when final valuation of property and equipment, intangible assets and future taxes is obtained. Transaction costs of $10 were expensed and recognized in the loss for 2009.

NOTE 5 – RESTRICTED CASH

Restricted cash consists of a minimum cash balance that secures corporate credit cards of $115 (December 31, 2009 - $115) and $Nil cash on deposit that secured a Letter of Credit (December 31, 2009 - $210).

NOTE 6 – INVESTMENT

On December 12, 2008, the Company purchased a $300 convertible debenture issued by Prevail Energy Inc., ("Prevail") a private Canadian corporation with a joint venture interest in an oil and gas concession in The Republic of the Congo. On January 22, 2010, the Company received full payment of the principle and interest earned to January 22, 2010.

NOTE 7 – PROPERTY AND EQUIPMENT

$000	**March 31, 2010**	December 31, 2009
Oil and gas properties, at cost	**47,853**	46,398
Accumulated depletion	**(1,321)**	(107)
Impairment of oil and gas properties	**(31,393)**	(31,393)
	15,139	14,898
Furniture and equipment (net)	**110**	114
	15,249	15,012

During the three months ended March 31, 2010 the Company capitalized $355 of general and administrative costs related to development and production activities to Property and equipment (2009 - $674).

NOTE 8 – DEMAND LOAN

The Company has available a $US denominated revolving demand loan to a maximum of $US 6,000. The demand loan bears interest at the bank prime rate for $US borrowings plus 1.875%, and is payable upon demand. The Company must provide security in the form of Treasury Deposits or Guaranteed Investment Certificates in $CDN funds equal to the outstanding amount of the loan plus a 5% margin to account for weekly exchange rate fluctuations. The balance outstanding as at March 31, 2010 was $Nil (December 31, 2009 – $Nil).

NOTE 9 – SHARE CAPITAL

a. Authorized

The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value. No preferred shares are issued or outstanding at March 31, 2010 and December 31, 2009.

b. Issued and outstanding

Common shares with no-par value *$000, except for number of shares*	Number of Shares	Amount
Balance, December 31, 2008	144,509,405	44,444
Warrants exercised	1,622,000	474
Private placement, net of issuance costs	60,000,000	9,824
Transfer from exercise of warrants	-	200
Balance, December 31, 2009	206,131,405	54,942
Warrants exercised	2,298,453	848
Transfer from exercise of warrants	-	297
Balance, March 31, 2010 [1]	208,429,858	56,087

[1] The basic and diluted loss per share provided on the Consolidated Statements of Loss, Comprehensive Loss and Deficit is based on the total common shares outstanding at March 31, 2010 plus the 23,866,500 common shares that were issued in exchange for the special warrants on April 19, 2010 (Note 9c).

On November 6, 2009 the Company completed a private placement and issued 60,000,000 Units for $0.25 per unit. Each unit consisted of one common share and one half warrant. One full warrant is convertible into one common share of Sea Dragon Energy Inc. at a price of $0.50 per share until the expiry date of November 6, 2012. Proceeds of the placement were $14,245, net of costs. The fair value of the warrants was estimated to be $4,420 or $0.15 per full warrant based on the relative fair value of a common share and a full warrant using the Black-Scholes pricing model with the following assumptions: average risk free rate – 2%, expected life – 3 years, expected volatility rate - 159% and expected dividend yield of 0.00%. Directors and Officers of the Company purchased 1,520,000 units of this offering.

Throughout the year ended December 31, 2009 the Company issued 1,622,000 common shares upon the exercise of 1,622,000 warrants at an average price of $0.29 per share for total proceeds on exercise of $474.

Throughout the quarter ended March 31, 2010 the Company issued 2,298,453 common shares upon the exercise of 2,298,453 warrants at an average price of $0.37 per share for total proceeds on exercise of $848.

c. Special warrants

Special warrants *$000, except for number of special warrants*	Number of Special Warrants	Amount
Balance, December 31, 2009	Nil	Nil
Special warrants issued	22,730,000	12,501
Special warrant issue costs	-	(861)
Balance, March 31, 2010	22,730,000	11,640

On January 25, 2010 the Company issued 22,730,000 special warrants for gross proceeds of $12,501, less the underwriters' fee of $625 and $236 in other expenses. Each special warrant entitled the holder thereof to receive one common share on the exercise of the special warrant for no additional consideration, subject to an adjustment whereby if the Company was not qualified to issue the common shares under this offering by April 1, 2010, each warrant would be exercisable for 1.05 common shares ("the additional shares") for no additional consideration. The Company qualified to issue the common shares on April 13, 2010 and as a result 23,866,500 common shares were issued upon the exercise of the special warrants on April 13, 2010. At March 31, 2010 the Company recognized as an obligation and included in accounts payable and accrued liabilities, and expense, $470,000 for the estimated fair value of additional common shares expected to be issued on the exercise of the special warrants.

(Unaudited - Expressed in thousands of dollars)

d. Stock option plan

Stock-based compensation expense of $185 was recorded during the three months ended March 31, 2010 (2009 - $82).

The following Employee Stock Options were outstanding and exercisable:

Share Purchase Options	Three months ended March 31, 2010 Number of Options	Three months ended March 31, 2010 Weighted Average Exercise Price	Year ended December 31, 2009 Number of Options	Year ended December 31, 2009 Weighted Average Exercise Price
Options outstanding at the beginning of the period	**9,816,666**	**$0.42**	4,700,000	$0.60
Granted	-	-	5,250,000	$0.26
Forfeited	**(66,666)**	**$0.60**	(133,334)	$0.60
Options outstanding at the end of the period	**9,750,000**	**$0.43**	9,816,666	$0.42
Exercisable	**1,500,000**	**$0.60**	1,500,000	$0.60

The following summarizes details about the Company's stock options as at March 31, 2010:

	Outstanding Options		Vested Options	
Exercise Price	Number of Options	Remaining Contract Life	Number of Options	Remaining Contract Life
$0.60	4,500,000	3.3 years	1,500,000	3.3 years
$0.18	3,500,000	4.4 years	Nil	4.4 years
$0.50	1,750,000	4.6 years	Nil	4.6 years
	9,750,000		1,500,000	

Unvested options as of March 31, 2010 will vest in accordance with the following schedule:

Exercise Price	Number of Options	Date when vested
$0.60	1,500,000	July 28, 2010
$0.18	1,166,666	August 24, 2010
$0.50	583,333	November 9, 2010
$0.60	1,500,000	July 28, 2011
$0.18	1,166,667	August 24, 2011
$0.50	583,333	November 9,2011
$0.18	1,166,667	August 24, 2012
$0.50	583,334	November 9, 2012
	8,250,000	

e. Warrants

The following share purchase warrants were outstanding at March 31, 2010:

	Number of Warrants Outstanding	Exercise Price	Expiry Date
Outstanding, December 31, 2008	9,281,671	$0.41	
Issued November 6, 2009	30,000,000	$.50	November 6, 2012
Exercised	(1,622,000)	$0.29	
Outstanding, December 31, 2009	37,659,671	$0.49	
Exercised	(2,298,453)	$0.37	
Expired	(3,176,468)	$0.60	

Outstanding, March 31, 2010	32,184,750	$0.49	

$000	**Three Months ended March 31, 2010**	Year ended December 31, 2009
Warrants, beginning of the period	**5,506**	1,286
Fair value of warrants issued (Note 9b)	**-**	4,420
Transfer to Common shares on exercise of warrants	**(297)**	(200)
Transfer to contributed surplus on expiration of warrants	**(503)**	
Warrants, end of the period	**4,706**	5,506

f. Contributed surplus

$000	**Three months ended March 31, 2010**	**Year ended December 31, 2009**
Contributed surplus, beginning of the period	**568**	**151**
Stock-based compensation expense	**185**	**417**
Transfer on expiration of warrants	**503**	**-**
Contributed surplus, end of the period	**1,256**	**568**

NOTE 10 – RELATED PARTY TRANSACTIONS

Included in general and administrative expenses is $240 (March 31, 2009 - $120) paid to directors and officers and companies controlled by directors and officers of the Company for consulting services. These related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the consideration established and agreed to by the related parties.

NOTE 11 – COMMITMENTS

On December 30, 2009 the Company transferred $US2,000 ($CDN2,099) to its lawyer to be held in trust as a deposit for the farm-out agreement of a 50% participating interest in the Kom Ombo (Block -2) Concession in Egypt (Note 13a). Total consideration to be paid is approximately $US45,000 net of working capital adjustments. Proceeds from the January 2010 special warrants issue (Note 9c) funded an additional $US8,000 deposit and the combined deposits of $US10,000 was remitted to the vendor on January 29, 2010. The Company remitted a further $US28,477 on April 29, 2010 and another remittance of $US2,089 made on May 19, 2010 (Note 13a) using funds raised by the common share offering that closed on April 19, 2010 (Note 13c).

NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

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

$000	**Three Months ended March 31, 2010**	**Three Months ended March 31, 2009**
Operating activities:		
Accounts receivable	(1,158)	(36)
Accounts payable and accrued liabilities	(418)	(2)
	(1,576)	(38)
Investing activities:		
Accounts receivable	938	1,228
Accounts payable and accrued liabilities	2,519	1,404
	3,457	2,632

NOTE 13 – SUBSEQUENT EVENTS

a. On December 31, 2009, the Corporation, through its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd., entered into a farmout agreement with Dana Gas Egypt ("DGE") for the acquisition of a fifty (50%) percent participating interest in the Kom Ombo Concession, Egypt for aggregate consideration of $US45,000, inclusive of the vendor's share of future capital costs in the amount of $US4,000 and subject to post-closing working capital adjustments, estimated to be approximately $US4,000. The CEO of the Company is an independent director of Dana Gas PJSC (the parent company of Dana Gas Egypt). The effective date of the Kom Ombo Acquisition is July 1, 2009. Sea Dragon Energy (Kom Ombo) Ltd. received the Deed of Assignment for the 50% participating interest on January 28, 2010.

   On behalf of its subsidiary, Sea Dragon placed a deposit of $US2,000 in trust with its lawyer on December 30, 2009 and an additional $US8,000 ($C8,322) in trust with its lawyer on January 12, 2010. Pursuant to the terms of the Farmout Agreement, the Company remitted an initial installment of $US10,000 on January 29, 2010, using the funds held in trust. The initial installment of $US10,000 was funded from cash on hand and the net proceeds of the Special Warrant Offering (Note 9c). On April 29, 2010 the Company remitted $US28,477 as partial payment of the final payment, and the remainder of the adjusted purchase price of $US2,089 was remitted on May 19, 2010.

   Under the terms of the Agreement the $US4,000 consideration for the vendor's share of future costs are to be paid in three equal amounts that are to be included in the monthly cash call payments for March, April and May 2010. In addition, Sea Dragon will be required to provide a Letter of Guarantee not exceeding $US4,500 that will secure its share of the concession work commitment.

   For accounting purposes, the acquisition of the Kom Ombo working interest is considered to have occurred on April 29, 2010, when the consideration for the acquisition was substantially paid. At March 31, 2010 Sea Dragon owed the estimated remaining consideration of $US34,500, which was funded from the proceeds of the Offering, described in 13c. below. As at March 31, 2010 the Company could not be certain that it would have the funds to complete the acquisition and, consequently, the recognition of the acquisition has been deferred until April 29, 2010. Accordingly, these financial statements for the quarter ended March 31, 2010 do not include revenues from the sale of crude oil from the Kom Ombo joint venture, nor expenses for operations or overhead costs nor capital expenditures. Any net remittances during the quarter have been added to the acquisition deposit and will adjust the acquisition price and allocation when it is reported in the second quarter.

b. On April 16, 2010, a statement of claim (the "Claim") was filed in the province of Alberta against the Company in which the Plaintiffs allege, among other things, that the actions of the Company contributed to the Plaintiffs not being recognized for a 25% interest in the EWA Concession Agreement. They seek injunctions and damages of $32,000 as compensation.

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

c. On April 19, 2010, Sea Dragon completed an issuance of 142,500,000 Common Shares on a bought deal basis pursuant to a short form prospectus at a price of $0.40 per Common Share for gross proceeds to Sea Dragon of approximately $57,000 (the "Offering") less the Underwriters' fee of $2,850 and the other expenses of the Offering estimated to be $375. Proceeds of the Offering were used to pay the balance of the consideration of approximately $US34,500 due for the acquisition of a fifty (50%) percent participating interest in the Kom Ombo Concession including the $US4,000 that will be paid through payment of the March, April and May cash calls.

NOTE 14 – COMPARATIVE AMOUNTS

Certain comparative information has been restated to conform to the presentation of the March 31, 2010 information.