Sea Dragon Energy Inc.
Interim Financial Statements
June 30, 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 and six months ended June 30, 2009.

Sea Dragon Energy Inc.

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

(Unaudited)

$000s	**June 30, 2010**	December 31, 2009
ASSETS		
Current		
Cash	**22,469**	2,092
Accounts receivable (Note 3b)	**5,041**	2,401
	27,510	4,493
Restricted cash (Note 5)	**140**	325
Acquisition deposit (Note 4a)	**-**	2,099
Investment (Note 6)	**-**	300
Property and equipment (Note 7)	**60,354**	15,012
	88,004	22,229
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**2,827**	1,061
Basis of presentation (Note 1)		
Demand loan (Note 8)		
Commitments (Note 10)		
Contingency (Note 12)		
SHAREHOLDERS' EQUITY		
Common shares (Note 9b)	**122,280**	54,942
Warrants (Note 9d)	**4,459**	5,506
Contributed surplus (Note 9e)	**1,556**	568
Deficit	**(43,118)**	(39,848)
	85,177	21,168
	88,004	22,229

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

Sea Dragon Energy Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(Expressed in Canadian dollars)

(Unaudited)

	Three Months ended June 30		Six Months ended June 30	
$000s	**2010**	2009	**2010**	2009
REVENUES				
Oil sales, net of royalties	**3,388**	-	**5,177**	-
Interest	**7**	103	**11**	175
	3,395	103	**5,188**	175
EXPENSES				
Operating	**1,015**	-	**1,385**	-
General and administrative	**1,303**	921	**2,442**	1,830
Foreign exchange loss/(gain)	**(373)**	206	**(687)**	349
Stock-based compensation	**180**	92	**365**	174
Additional shares (Note 9b)	**-**	-	**470**	-
Impairment of oil and gas properties (Note7)	**-**	21	**-**	10,620
Depletion and depreciation (Note 7)	**1,861**	4	**3,084**	7
	3,986	(1,244)	**7,059**	(12,980)
Loss before income taxes	**(591)**	(1,141)	**(1,871)**	(12,805)
Income taxes – current	**(843)**	-	**(1,399)**	-
NET AND COMPREHENSIVE LOSS	**(1,434)**	(1,141)	**(3,270)**	(12,805)
DEFICIT, Beginning of period	**(41,684)**	(34,677)	**(39,848)**	(23,013)
DEFICIT, End of period	**(43,118)**	(35,818)	**(43,118)**	(35,818)
Basic and diluted loss per share	**-**	(0.01)	**(0.01)**	(0.09)
Weighted average common shares outstanding	**342,651,023**	144,509,405	**275,643,415**	144,509,405

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)

$000s	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Cash provided by (used in)				
Operating Activities				
Net loss	**(1,434)**	(1,141)	**(3,270)**	(12,805)
Add non-cash items:				
Stock-based compensation	**180**	92	**365**	174
Depletion and depreciation	**1,861**	4	**3,084**	7
Impairment of oil and gas properties	**-**	21	**-**	10,620
Unrealized exchange loss/(gain)	**82**	(4)	**67**	140
Additional shares	**-**	-	**470**	-
	689	(1,028)	**716**	(1,864)
Changes in non-cash working capital (Note 11)	**(4,049)**	143	**(5,625)**	104
	(3,360)	(885)	**(4,909)**	(1,760)
Financing Activities				
Proceeds from issuance of shares, net of costs	**54,139**	-	**66,443**	-
Demand loan	**-**	(6,908)	**-**	111
	54,139	(6,908)	**66,443**	111
Investing Activities				
Property and equipment expenditures	**(1,234)**	(620)	**(2,694)**	(11,751)
Property and equipment acquisition (Note 4a)	**(45,731)**	-	**(45,731)**	-
Acquistion deposit	**12,185**	-	**2,099**	-
Restricted cash	**(25)**	11,710	**185**	3,217
Investment – Convertible debenture	**-**	-	**300**	-
Changes in non-cash investing working capital (Note 11)	**1,294**	(7,063)	**4,751**	(4,432)
	(33,511)	4,027	**(41,090)**	(12,966)
Effect of exchange rate changes on cash held in foreign currencies	**(82)**	-	**(67)**	-
Net increase (decrease) in cash	**17,186**	(3,766)	**20,377**	(14,615)
Cash, beginning of period	**5,283**	5,884	**2,092**	16,733
Cash, end of period	**22,469**	2,118	**22,469**	2,118
Interest paid	**-**	38	**-**	125

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

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Sea Dragon Energy Inc. ("Sea Dragon" or the "Company") and it's wholly owned subsidiaries, Sea Dragon Energy (NW Gemsa) B.V. and Sea Dragon Energy (Kom Ombo) Ltd., at June 30, 2010 and December 31, 2009 and for the three and six months ended June 30, 2010 and June 30, 2009. The consolidated financial statements are presented in accordance with the Canadian Institute of Chartered Accountants ("CICA") generally accepted accounting principles ("GAAP") on the same basis as the audited consolidated financial statements as at and for the year ended December 31, 2009. 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. The financial statements are expressed 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.

NOTE 2 – CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board 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 as compared to Canadian GAAP. IFRS conversion will 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:

$000s	**June 30, 2010**	December 31, 2009
Shareholder equity	**85,177**	21,168
Working capital(1)	**(24,683)**	(3,432)
Total capital	**60,494**	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 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 cost 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 its existing properties 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.

$000s	**June 30, 2010**	December 31, 2009	June 30, 2009
Cash flow used in operating activities (three months)	**(3,360)**	(1,340)	(885)
Working capital (deficiency)	**24,683**	3,432	1,839

Working capital as at June 30, 2010 of $24,683 has increased from the December 31, 2009 balance of $3,432 primarily as a result of the Company raising $11,640 and $53,691 net of related costs in two private placements during the six months ended June 30, 2010 (Note 9b). A portion of the funds raised was allocated to the purchase of the Kom Ombo concession (Note 4a) with the remainder allocated to fund anticipated expenditures of the Company for the remainder of 2010.

There were no changes in the Company's approach to capital management during the six months ended June 30, 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 June 30, 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 highly rated Canadian chartered bank, and therefore the Company considers these assets to have negligible credit risk.

At June 30, 2010 the Company had accounts receivable of $5.0 million of which 85% was due from two separate entities, both of which are government controlled agencies in Egypt.

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, to the extent 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 from funds raised by private placements in January 2010 and April 2010 (Note 9b) and cash flows from production will be adequate to support the Company's 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 due to the nature of its business. The company receives world oil prices for its oil production and is subject to price fluctuations.

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 (US$). As a result, the Company has foreign exchange transaction and translation exposure. US$ 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 US$3,779 cash and deposit (C$3,962) and a net balance of US$ denominated accounts receivable, less accounts payable of US$2,394 (C$2,510). 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 US$ would have resulted in an unrealized foreign exchange gain or loss, respectively, of C$30 (2009 – C$870). 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 revenue of C$929 (2009 – Nil).

NOTE 4 – SIGNIFICANT ACQUISITIONS

a. KOM OMBO

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 in Egypt for aggregate consideration of $45,731. The Chief Executive Officer 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 was July 1, 2009. Sea Dragon Energy (Kom Ombo) Ltd. received the Deed of Assignment for the 50% participating interest from the Egyptian government on January 28, 2010.

On April 29, 2010, substantially all consideration for the acquisition of the Kom Ombo working interest was paid to DGE, the operator of the Kom Ombo concession. Accordingly, the financial statements for the three months ended June 30, 2010 do not include revenues from the sale of crude oil from the Kom Ombo joint venture, expenses for operations, or capital expenditures attributable before April 29, 2010. The revenues, expenses and capital costs for July 1, 2009 to April 28, 2010 have been reflected as an adjustment to the acquisition price.

$000s	
Consideration:	
Cash	$45,731
Allocated to:	
Property and Equipment	$45,731

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information available. Amendments may be made to these amounts as values subject to estimate are finalized.

b. NW GEMSA

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. POE's principle asset was a 10 percent working interest in the North West Gemsa concession. 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.

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:

$000s	
Consideration:	
Cash	15,749
Allocated to:	
Accounts receivable	2,036
Property and equipment	14,030
Accounts payable and accrued liabilities	(317)
	15,749

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information available. Amendments may be made to these amounts as values subject to estimate are finalized.

Transaction costs of $10 were expensed in 2009.

NOTE 5 – RESTRICTED CASH

Restricted cash consists of a minimum cash balance that secures corporate credit cards of $140 (December 31, 2009 - $115). In addition as at December 31, 2009 the Company had secured a Letter of Credit for $210 that was released in January 2010.

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

$000s	**June 30, 2010**	December 31, 2009
Oil and gas properties, at cost	**94,755**	46,398
Accumulated depletion	**(3,169)**	(107)
Impairment of oil and gas properties	**(31,393)**	(31,393)
	60,193	14,898
Furniture and equipment (net)	**161**	114
	60,354	15,012

During the six months ended June 30, 2010, the Company capitalized $112 of general and administrative costs related to development and production activities in Egypt (2009 - $780).

At June 30, 2010, expenditures associated with the Company's unproven properties totaling $36,882 (December 31, 2009 – Nil) have been excluded from depletion. Estimated future development costs of $3,126 have been included in costs subject to depletion.

NOTE 8 – DEMAND LOAN

The Company has available a US dollar (US$) denominated revolving demand loan to a maximum of US$ 6.0 million. 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 Canadian funds equal to the outstanding amount of the loan plus a 5% margin to account for weekly exchange rate fluctuations. The balance outstanding on the facility, as at June 30, 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 June 30, 2010 and December 31, 2009.

b. Common shares

$000s, except for number of common shares	Number of Shares	Amount
Balance, December 31, 2009	206,131,405	54,942
Warrants exercised	3,206,453	1,113
Conversion of special warrants, net of share issuance costs	23,866,500	12,110
Private placement, net of issuance costs	142,500,000	53,691
Transfer from exercise of warrants (Note 4d)	-	424
Balance, June 30, 2010	375,704,358	122,280

During the six months ended June 30, 2010 the Company issued 3,206,453 common shares upon the exercise of 3,206,453 warrants at an average price of $0.35 per common share for total proceeds on exercise of $1,113.

On April 13, 2010 the Company converted 22,730,000 special warrants that were issued on January 25, 2010. 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 the original 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 on April 13, 2010, 23,866,500 common shares were issued upon the exercise of the special warrants. The Company recognized an expense of $470 for the estimated fair value of additional common shares issued on the exercise of the special warrants. The gross proceeds of the issuance were $12,501, less the underwriters' fee of $625 and other expenses of $236.

On April 19, 2010 the Company 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 the Company of $57,000 less the underwriters fee of $2,850 and other expenses of the offering of $459. Proceeds of this offering were used to pay the balance of the consideration due for the acquisition of a fifty percent participating interest in the Kom Ombo Concession (Note 4a).

c. Stock option plan

On June 2, 2010 the Company granted certain officers and employees a total of 1,450,000 options exercisable at $0.35. The options were valued at $0.30 using the Black-Scholes option pricing model with the following assumptions:

Annual dividend per share	Nil
Risk-free interest rate	2.28%
Expected life	5 years
Expected volatility	129%
Forfeiture rate	0%

The options vest annually over the next three years and expire June 2, 2015. The options are accounted for using the graded vesting method whereby the options that vest within the year are expensed evenly over the year, the options that vest within two years are expensed throughout the two year period and the options that vest over three years are expensed evenly over the three year period.

The following table sets forth a reconciliation of the employee stock option activity:

Stock Options	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2009	9,816,666	$0.42
Granted	1,450,000	$0.35
Forfeited	(66,666)	$0.60
Options outstanding at end end of the period	11,200,000	$0.42
Exercisable	1,500,000	$0.60

In July 2010, 1.7 million options were granted to certain officers, directors and employees of the Company.

The following summarizes details about the Company's stock options as at June 30, 2010:

	Outstanding Options		Vested Options	
Exercise Price	Number of Options	Remaining Contract Life	Number of Options	Remaining Contract Life
$0.60	4,500,000	3.1 years	1,500,000	3.1 years
$0.18	3,500,000	4.2 years	Nil	4.2 years
$0.50	1,750,000	4.4 years	Nil	4.4 years
$0.35	1,450,000	4.9 years	Nil	4.9 years
	11,200,000		1,500,000	

d. Warrants

The following share purchase warrants were outstanding as at June 30, 2010:

	Number of Warrants Outstanding	Exercise Price
Outstanding, December 31, 2009	37,659,671	$0.49
Exercised	(3,206,453)	$0.35
Expired	(4,198,218)	$0.53
Outstanding, June 30, 2010	30,255,000	$0.50

$000s	
Warrants, December 31, 2009	5,506
Transfer to Common shares on exercise of warrants	(424)
Transfer to contributed surplus on expiration of warrants	(623)
Warrants, end of the period	4,459

On March 2, 2010 the Company informed holders of certain outstanding warrants that early termination provisions were being exercised by the Company and the warrants would expire within 30 days of such notice. On April 1, 2010, 1.0 million unexercised warrants expired.

e. Contributed surplus

$000s	
Contributed surplus, December 31, 2009	568
Stock-based compensation expense	365
Transfer on expiration of warrants	623
Contributed surplus, end of the period	1,556

NOTE 10 – COMMITMENTS

Pursuant to concession agreements in Egypt, the Company is required to perform certain minimum exploration activities that include the drilling of exploration wells. These obligations have not been provided for in the financial statements.

The Company has office lease commitments in Calgary, Paris and Cairo.

The following are the anticipated payments under the contracts:

Fiscal year *$000s*	Concession Agreements	Office Leases	Total
2010	2,750	144	2,894
2011	1,000	93	1,093
2012	1,000	41	1,041

Sea Dragon is required to provide a Letter of Guarantee ("Letter") not exceeding US$4,500 that will secure its share of the concession work commitment. The Letter has not yet been issued and has not been provided for in the financial statements.

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months ended June 30		**Six Months ended June 30**	
$000	**2010**	2009	**2010**	2009
Operating activities				
Accounts receivable	**(4,002)**	223	**(5,160)**	185
Accounts payable and accrued liabilities	**(47)**	(80)	**(465)**	(81)
	(4,049)	143	**(5,625)**	104
Investing activities				
Amount receivable	**1,582**	225	**2,520**	(61)
Prepaid expenses, deposits and amounts paid in excess of costs	**-**	579	**-**	2,092
Accounts payable and accrued liabilities	**(288)**	(7,867)	**2,231**	(6,463)
	1,294	(7,063)	**4,751**	(4,432)

NOTE 12 – CONTINGENCY

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. The plaintiffs seek injunctions and damages of $32.0 million as compensation.

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

NOTE 13 – COMPARATIVE AMOUNTS

Certain comparative information has been restated to conform to the presentation of the June 30, 2010 information.