Interim Consolidated Balance Sheets (Unaudited)

(thousands of United States dollars)	Note	As at September 30, 2012	As at December 31, 2011
Assets			
Cash and cash equivalents		**5,405**	6,125
Trade and other receivables		**7,611**	12,230
Deferred transaction costs	*8*	**362**	370
Current assets		**13,378**	18,725
Deferred transaction costs	*8*	**1,120**	1,390
Property, plant and equipment, net	*6*	**36,697**	33,609
Intangible exploration and evaluation assets	*7*	**3,690**	21,939
Non-current assets		**41,507**	56,938
Assets		**54,885**	75,663
Liabilities			
Bank indebtedness	*8*	**3,000**	3,000
Trade and other payables		**3,804**	3,786
Provision	*9*	**380**	–
Current liabilities		**7,184**	6,786
Provision	*9*	**60**	–
Non-current liabilities		**60**	–
Liabilities		**7,244**	6,786
Equity			
Share capital	*10*	**119,574**	119,574
Warrants		**4,122**	4,122
Contributed surplus		**3,714**	3,289
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(77,292)**	(55,631)
Equity		**47,641**	68,877
Equity and liabilities		**54,885**	75,663

The notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Comprehensive Income Statements (Unaudited)

(thousands of United States dollars, except per share data)	Note	THREE MONTHS ENDED SEPTEMBER 30 2012	THREE MONTHS ENDED SEPTEMBER 30 2011	NINE MONTHS ENDED SEPTEMBER 30 2012	NINE MONTHS ENDED SEPTEMBER 30 2011
Oil revenue, net of royalties	*12*	**5,217**	5,131	**15,337**	15,680
Revenue		**5,217**	5,131	**15,337**	15,680
Direct operating expense		**965**	(159)	**3,102**	1,907
Exploration and evaluation expense	*7*	**745**	245	**2,843**	896
Depletion, depreciation and amortization	*6*	**1,028**	890	**2,912**	2,687
Impairment expense	*7*	**19,222**	–	**19,222**	–
Foreign exchange loss		**39**	112	**123**	41
Stock based compensation		**78**	241	**425**	523
Loss on disposal of fixed assets		**24**	–	**24**	–
General and administrative expenses		**976**	1,385	**3,630**	4,170
Operating income/(loss)		**(17,860)**	2,417	**(16,944)**	5,456
Finance expense		**334**	–	**882**	–
Income/(loss) before income taxes		**(18,194)**	2,417	**(17,826)**	5,456
Current income tax expense	*13*	**1,304**	1,274	**3,835**	3,904
Total comprehensive income/(loss) for the period		**(19,498)**	1,143	**(21,661)**	1,552
Net income/(loss) per share – basic and diluted	*14*	**$ (0.05)**	$ 0.00	**$ (0.06)**	$ 0.00

The notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011
Share capital		
Balance, beginning of period	**119,574**	119,574
Balance, end of period	**119,574**	119,574
Warrants		
Balance, beginning of period	**4,122**	4,122
Balance, end of period	**4,122**	4,122
Contributed Surplus		
Balance, beginning of period	**3,289**	2,581
Share based payments	**425**	523
Balance, end of period	**3,714**	3,104
Accumulated Other Comprehensive Loss		
Balance, beginning of period	**(2,477)**	(2,477)
Balance, end of period	**(2,477)**	(2,477)
Accumulated Deficit		
Balance, beginning of period	**(55,631)**	(42,793)
Total comprehensive income/(loss) for the period	**(21,661)**	1,552
Balance, end of period	**(77,292)**	(41,241)
Total Equity	**47,641**	83,082

The notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statement of Cash Flows (Unaudited)

(thousands of United States dollars)	Note	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2012	2011	2012	2011
Cash flows from/(used in) operating activities					
Net income/(loss) for the period		**(19,498)**	1,143	**(21,661)**	1,552
Adjustments for:					
Depletion, depreciation and amortization	6	**1,028**	890	**2,912**	2,687
Exploration and evaluation expense	7	**–**	9	**–**	379
Impairment expense	7	**19,222**	–	**19,222**	–
Amortization of deferred transaction costs		**92**	–	**278**	–
Unrealized foreign exchange gain/(loss)		**19**	(125)	**(51)**	(25)
Stock–based compensation		**78**	241	**425**	523
Loss on disposal of fixed assets		**24**	–	**24**	–
Operating cash flows before change in non–cash working capital		**965**	2,158	**1,149**	5,116
Change in non–cash working capital including non-current provision		**1,519**	(3,181)	**5,077**	(6,223)
Net cash from/(used in) operating activities		**2,484**	(1,023)	**6,226**	(1,107)
Cash flows from/(used in) investing activities:					
Property, plant and equipment expenditures	6	**(1,787)**	(1,572)	**(6,024)**	(6,010)
Exploration and evaluation expenditures	7	**(115)**	(20)	**(973)**	(122)
Restricted cash	5	**2,000**	–	**–**	–
Net cash from/(used in) investing activities		**98**	(1,592)	**(6,997)**	(6,132)
Cash flows from/(used in) financing activities:					
Transaction costs		**–**	(486)	**–**	(486)
Proceeds on issuance of debt	8	**–**	–	**5,000**	–
Repayment of debt	8	**(4,337)**	–	**(5,000)**	–
Net cash from financing activities		**(4,337)**	(486)	**–**	(486)
Change in cash and cash equivalents		**(1,755)**	(3,101)	**(771)**	(7,725)
Effect of foreign exchange on cash and cash equivalents		**(19)**	125	**51**	25
Cash and cash equivalents, beginning of period		**7,179**	10,027	**6,125**	14,751
Cash and cash equivalents, end of period		**5,405**	7,051	**5,405**	7,051

The notes are an integral part of these interim consolidated financial statements.

Notes to the Consolidated Financial Statements (Unaudited)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(tabular amounts are in thousands of United States dollars except per share data)

Note 1 Reporting entity:

Sea Dragon Energy Inc. ("Sea Dragon" or "the Company") is a company domiciled in Canada. The address of the Company's registered office is 255-5th Avenue SW, Bow Valley Square 3, Suite 2320, Calgary Alberta T2P 3G6. The consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2012 and 2011 comprise the Company and its wholly owned subsidiaries. The Company is engaged in the exploration for and development and production of oil and natural gas and conducts many of its activities jointly with others; these consolidated financial statements reflect only the Company's proportionate interest in such activities. The Company's principle properties are located in the Arab Republic of Egypt.

The Company is listed on the Toronto Venture Stock Exchange (TSX-V) and trades under the symbol SDX.

Note 2 Basis of preparation and accounting policies:

Basis of preparation

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2012 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim Consolidated Financial Statements of Sea Dragon Energy were approved by the Audit Committee on November 26, 2012.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Note 3 Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of financial instrument valuation methods have been defined as follows:

Level 1 Fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 Fair Value Measurements are based on unobservable information.

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, and bank debt included in the consolidated balance sheet approximate fair value due to the short term nature of those instruments.

Stock options:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, and the risk-free interest rate.

Note 4 Financial risk management:

(a) Overview:

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- market risk;
- foreign currency risk; and
- other price risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated interim financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners, oil and natural gas marketers, and cash held with banks. The maximum exposure to credit risk at the end of the period is as follows:

	CARRYING AMOUNT	
	September 30, 2012	December 31, 2011
Cash and cash equivalents	**5,405**	6,125
Trade and other receivables	**7,611**	12,230
Total	**13,016**	18,355

Trade and other receivables:

All of the Company's operations are conducted in Egypt. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party.

Receivables relating to oil and gas sales are due from Ganope and EGPC, two Government of Egypt controlled corporations and are normally collected in four to six months following production. The Company expects to collect the outstanding receivables in the normal course of operations.

The Company does not anticipate any default as it expects continued payment from customers. As such a provision for doubtful accounts has not been recorded as at September 30, 2012 and December 31, 2011.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	CARRYING AMOUNT	
	September 30, 2012	December 31, 2011
Government of Egypt controlled corporations	**6,892**	11,215
Joint venture partners	**584**	677
Other	**135**	338
Total trade and other receivables	**7,611**	12,230

The Company's most significant customer, a government controlled corporation in Egypt, accounts for $3.9 million of the trade receivables at September 30, 2012 (December 31, 2011: $7.6 million).

As at September 30, 2012 and December 31, 2011, the Company's trade and other receivables is aged as follows:

	September 30, 2012	December 31, 2011
Current (less than 90 days)	**6,066**	7,646
Past due (more than 90 days)	**1,545**	4,584
Total	**7,611**	12,230

The balances which are past due are not considered impaired.

Subsequent to September 30, 2012 the Company collected $2.2 million from government of Egypt controlled corporations.

Cash and cash equivalents:

The Company limits its exposure to credit risk by only investing in liquid securities and only with highly rated counterparties. The Companies cash and cash equivalents are currently held by banks with AA or equivalent credit ratings or better. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political unrest. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on projects to further manage capital expenditure and has a Board of Director approved signing authority matrix. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue to the extent possible, and has access to a working capital loan facility.

As at September 30, 2012, the Company's financial liabilities are due within one year, other than $0.1 million which is due in 2013.

(d) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

(e) Foreign currency risk:

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting and functional currency of the Company is United States dollars US$. Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the CDN$ and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in US$ and EGP. The Company is able to utilize the EGP locally, with the majority being exchanged into US$ within 30 days of receipt, therefore reducing the Company's exposure to foreign exchange.

	Total per FS[1]	US$	EGP	EUR	CAD
As at September 30, 2012				*US$ Equivalent*	
Cash and cash equivalents	5,405	3,787	1,180	122	316
Restricted cash	–	–	–	–	–
Trade and other receivables	7,611	7,554	–	18	39
Bank indebtedness	(3,000)	(3,000)	–	–	–
Trade and other payables	(3,804)	(3,642)	–	(80)	(82)
Provision	(440)	(440)	–	–	–
Balance sheet exposure	5,772	4,259	1,180	60	273

[1] *denotes Financial Statements*

The average exchange rate during the three and nine months ended September 30, 2012 was 1 US$ equals $0.9954CDN$ (2011 – 1 US$: $0.9808 CDN$) and 1 US$ equals $1.0023CDN$ (2011 – 1 US$: $0.9781 CDN$), respectively. The exchange rate at September 30, 2012 was 1 US$ equals $0.9832 Canadian dollar (2011 – 1 US$: $1.0482 CDN$).

(f) Other price risk:

Other price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the United States dollar and other currencies but also world economic events that impact the perceived levels of supply and demand.

The Company may hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company's production is sold on the daily average price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company will not enter into commodity contracts other than to meet the Company's expected sale requirements.

At September 30, 2012 the Company did not have any outstanding derivatives in place.

(g) Capital management:

The Company defines and computes its capital as follows:

	September 30, 2012	December 31, 2011
Equity	**47,641**	68,877
Working capital [1]	**(6,194)**	(11,939)
Total capital	**41,447**	56,938

[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, 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.

Note 5 Restricted cash

Restricted cash consisted of the escrow amount of cash being held with the escrow agent as a commitment fee under the terms of the Amended purchase agreement for the potential acquisition of National Petroleum Company ("NPC").

On May 10, 2012 the Company released $0.5 million of the escrow amount to Golden Crescent on account of additional legal fees incurred.

On July 23, 2012 the Company terminated the amended and restated share purchase agreement, at which time the remaining $2.0 million of the escrow amount was returned in full to the Company.

Note 6 Property, plant and equipment:

	Oil interests	Furniture and Fixtures	Total
Cost:			
Balance at December 31, 2010	**47,014**	**369**	**47,383**
Additions	7,935	21	7,956
Balance at December 31, 2011	**54,949**	**390**	**55,339**
Additions	6,024	–	6,024
Disposals	–	(24)	(24)
Balance at September 30, 2012	**60,973**	**366**	**61,339**
Accumulated depletion and depreciation:			
Balance at December 31, 2010	**(4,115)**	**(96)**	**(4,211)**
Depletion and depreciation for the year	(3,778)	(81)	(3,859)
Impairment for the year	(13,660)	–	(13,660)
Balance at December 31, 2011	**(21,553)**	**(177)**	**(21,730)**
Depletion and depreciation for the period	(2,882)	(30)	(2,912)
Balance at September 30, 2012	**(24,435)**	**(207)**	**(24,642)**
Property, plant and equipment, net	**36,538**	**159**	**36,697**

During the nine months ended September 30, 2012, the Company capitalized $1.2 million of general and administrative costs related to development and production activities in Egypt (September 30, 2011 - $1.3 million).

At September 30, 2012, future development costs totaling $28.6 million (September 30, 2011 - $16.4 million) have been included in costs subject to depletion.

Note 7 Intangible exploration and evaluation assets:

Cost:	
Balance at December 31, 2010	**22,165**
Additions	68
Exploration and evaluation expense	(294)
Balance at December 31, 2011	**21,939**
Additions	973
Impairment for the period	(19,222)
Balance at September 30, 2012	3,690

Intangible exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. During the period ended September 30, 2012 the Company recognized an impairment on the evaluation and exploration assets of $19.2 million. The impaired assets are the lands not developed in the Kom Ombo concession. The Company was required to assess for impairment due to the following indicators: the completion of the planned exploration program, lease expiry in the near future, as well as the initial estimates of the value of the asset indicate that the carrying amount is unlikely to be recovered in full from successful development.

At the reporting date, an impairment test was carried out, based on internal reserve estimates. The recoverable amount has been determined based on the value-in-use calculations. These calculations require the use of estimates. The present value of future cash flows was computed by applying forecast prices of oil and gas reserves to estimated future production of proved and probable oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 15%. The discount rate used reflects the specific risks related to the underlying asset. Based on this calculation there is an impairment of $19.2 million.

The value in use calculation assumes Brent oil sales prices in US$/bbl as follows:

2013	2014	2015	2016	2017	2018	2019
$ 101.36	$ 97.23	$ 97.41	$ 101.42	$ 103.37	$ 105.43	$ 107.54
2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
$ 109.69	$ 111.89	$ 114.13	$ 116.41	$ 118.74	$ 121.11	$ 123.53

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the impairment of the evaluation and exploration asset would be $20.4 million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the impairment of the evaluation and exploration asset would be $17.6 million.

During the three and nine months ended September 30, 2012, the Company incurred $0.2 million and $2.1 million in pre-license costs which were expensed, compared to $0.2 million and $0.5 million which were expensed for the three and nine months ended September 30, 2011.

Note 8 Loans and borrowings:

On September 23, 2011 the Company entered into a credit agreement with HSBC and BNP Paribas for a 5-year senior secured credit facility (the "Facility") in the amount of USD $50 million. The Facility is secured by a first charge on the shares, project accounts and interests of certain of the Sea Dragon group of companies.

The Facility is composed of two tranches:

i) Tranche A borrowing base is determined as a percentage of the specified value of risked 1P estimated future cash flows from certain fields (including NW Gemsa), priced at LIBOR plus 4.75%.

ii) Tranche B borrowing base is determined as 95 percent of the value of existing receivables no more than six months past due from certain fields (including NW Gemsa and Kom Ombo), priced at LIBOR plus 3%.

As at September 30, 2012 this resulted in amounts available for borrowing of $12 million under tranche A and $6.2 million under tranche B. The Facility includes standard borrowing base ratios and other customary covenants. The borrowing base is subject to routine semi-annual re-determination based on updated forecast reserves, production and receivables. All covenant requirements were complied with during the period ended September 30, 2012.

As at September 30, 2012, $3.0 million was drawn on the facility, all of which is classified as current:

	September 30, 2012	December 31, 2011
Tranche A	–	–
Tranche B	**3,000**	3,000
Total	**3,000**	3,000

As at September 30, 2012 there is $1.5 million of deferred transaction costs. The deferred transaction costs are being amortized straight line over the term of the loan facility of five years, of which $0.4 million is amortized within the next 12 months and $1.1 million over the remainder of the term. For the three and nine months ended September 30, 2012 there has been $93,000 and $278,000, respectively, of transaction costs amortized which is included in the finance expenses.

Note 9 Provisions:

	September 30, 2012	December 31, 2011
Opening balance	–	–
Additions	**440**	–
Accretion	–	–
Payment	–	–
Ending balance	**440**	–

The provision pertains to the Kom Ombo Concession, and is to record the cost recovery by the operator for field personnel costs to be paid in $20,000 monthly installments by the Company. The payment of these installments commences when these costs have been fully recovered in the cost recovery pool. The Company is currently defining with the Operator at which point in time this will occur, whether it will occur when the operating costs have been fully recovered or when the operating and capital costs have been fully recovered. As of February 1, 2012 the operating costs have been fully recovered. The Company has accrued for these costs on the basis that a contractual obligation exists however no payments have been made in relation to it.

Note 10 Share capital:

The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value.

	Number of Shares (000's)	Amount ($)
Balance December 31, 2010	**376,459**	**119,574**
Balance December 31, 2011	**376,459**	**119,574**
Balance September 30, 2012	**376,459**	**119,574**

Note 11 Stock Options:

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company. Options granted in 2011 are granted at the market price of the shares on the date of grant, have a five year term and vest on a graded basis over three years. Options granted prior to 2011 are granted at the market price of the shares on the date of grant, have a five year term and vest on a graded basis over three years for officers and employees, and vest immediately for directors.

The number and weighted average exercise prices of share options are as follows:

	Number of Options (000's)	Weighted Average Exercise Price (CDN$)
Outstanding January 1, 2011	**13,250**	**0.40**
Forfeited during the period	(1,300)	0.46
Granted during the period	8,060	0.13
Outstanding December 31, 2011	**20,010**	**0.29**
Forfeited during the period	(800)	0.21
Outstanding September 30, 2012	**19,210**	**0.29**
Exercisable September 30, 2012	**12,937**	**0.35**

The range of exercise prices of the outstanding options is as follows:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
Exercise Price Range	Number of options (000's)	Remaining contractual life	Number of options (000's)	Remaining contractual life
$0.01 to $0.18	10,610,000	3.2 years	5,536,630	1.9 years
$0.19 to $0.39	3,150,000	2.8 years	2,399,995	2.8 years
$0.40 to $0.59	1,450,000	2.1 years	1,000,000	2.1 years
$0.60 to $0.79	4,000,000	0.8 years	4,000,000	0.8 years
	19,210,000	2.6 years	12,936,625	1.8 years

Note 12 Revenue:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	**2012**	2011
Oil revenue	**11,130**	10,638	**32,645**	32,374
Royalties	**(5,913)**	(5,507)	**(17,308)**	(16,694)
Oil revenue, net of royalties	**5,217**	5,131	**15,337**	15,680

The royalties are those attributable to the government take in accordance with the fiscal terms of the concessions.

Note 13 Income tax expense:

Pursuant to the terms of the Company's concession agreements, the corporate tax liability of the joint venture partners is paid by the government controlled corporations ("Corporations") out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes the corporate taxes paid by the Corporations are treated as a benefit earned by the Company; the amount is included in net oil revenues and deducted as an income tax expense.

Note 14 Loss per share:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	**2012**	2011
Net income/ (loss) for the period	**(19,498)**	1,143	**(21,661)**	1,552
Weighted average number of shares *(000's)*				
Basic and diluted	**376,459**	376,459	**376,459**	376,459
Per share				
Basic and diluted	**$ (0.05)**	$ 0.00	**$ (0.06)**	$ 0.00

Basic income or loss per share is calculated by dividing the income or loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Anti-dilutive incremental options and warrants are excluded from the weighted average number of diluted shares outstanding.

Note 15 Segmental Reporting:

Geographical segments

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions. The executive directors consider the business from predominantly a geographic perspective. The Company has a corporate office in Canada and operations in Egypt. Set out below is segmented information on a geographic basis.

	THREE MONTHS ENDED SEPTEMBER 30, 2012			THREE MONTHS ENDED SEPTEMBER 30, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Segment revenue	**–**	**5,217**	**5,217**	–	5,131	5,131
Segment direct operating expenses	**–**	**965**	**965**	–	(159)	(159)
Segment exploration and evaluation expense	**295**	**450**	**745**	–	245	245
Segmented depletion, depreciation and amortization	**24**	**1,004**	**1,028**	6	884	890
Segmented impairment expense	**–**	**19,222**	**19,222**	–	–	–
Segmented foreign exchange loss	**39**	**–**	**39**	112	–	112
Segment stock based compensation	**78**	**–**	**78**	241	–	241
Segment loss on disposal of fixed assets	**–**	**24**	**24**	–	–	–
Segment general and administrative expenses	**764**	**212**	**976**	1,232	153	1,385
Segment operating income/(loss)	**(1,200)**	**(16,660)**	**(17,860)**	(1,591)	4,008	2,417
Segmented finance expense	**334**	**–**	**334**	–	–	–
Segmented income/(loss) before income tax	**(1,534)**	**(16,660)**	**(18,194)**	(1,591)	4,008	2,417
Current income tax expense	**–**	**1,304**	**1,304**	–	1,274	1,274
Comprehensive income/(loss) for the period	**(1,534)**	**(17,964)**	**(19,498)**	(1,591)	2,734	1,143

	NINE MONTHS ENDED SEPTEMBER 30, 2012			NINE MONTHS ENDED SEPTEMBER 30, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Segment revenue	**–**	**15,337**	**15,337**	–	15,680	15,680
Segment operating expenses	**–**	**3,102**	**3,102**	–	1,907	1,907
Segment exploration and evaluation expense	**2,085**	**758**	**2,843**	24	872	896
Segmented depletion, depreciation and amortization	**40**	**2,872**	**2,912**	39	2,648	2,687
Segmented impairment expense	**–**	**19,222**	**19,222**	–	–	–
Segmented foreign exchange loss	**123**	**–**	**123**	41	–	41
Segment stock based compensation	**425**	**–**	**425**	523	–	523
Segment loss on disposal of fixed assets	**–**	**24**	**24**	–	–	–
Segment general and administrative expenses	**3,022**	**608**	**3,630**	3,815	355	4,170
Segment operating income/(loss)	**(5,695)**	**(11,249)**	**(16,944)**	(4,442)	9,898	5,456
Segmented finance expense	**882**	**–**	**882**	–	–	–
Segmented income/(loss) before income tax	**(6,577)**	**(11,249)**	**(17,826)**	(4,442)	9,898	5,456
Current income tax expense	**–**	**3,835**	**3,835**	–	3,904	3,904
Comprehensive income/(loss) for the period	**(6,577)**	**(15,084)**	**(21,661)**	(4,442)	5,994	1,552

The segment assets and liabilities as at September 30, 2012 and December 31, 2011 are as follows:

	SEPTEMBER 30, 2012			DECEMBER 31, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Segment assets	**5,420**	**49,465**	**54,885**	6,018	69,645	75,663
Segment liabilities	**3,210**	**4,034**	**7,244**	4,432	2,354	6,786

The segment capital expenditures for the three and nine months ended September 30, 2012 and 2011 are as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2012			THREE MONTHS ENDED SEPTEMBER 30, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Capital additions	**–**	**1,902**	**1,902**	–	1,592	1,592

	NINE MONTHS ENDED SEPTEMBER 30, 2012			NINE MONTHS ENDED SEPTEMBER 30, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Capital additions	**–**	**6,997**	**6,997**	21	6,111	6,132

Note 16 Contingencies:

On April 16, 2010, a statement of claim (the "Claim") was filed in the province of Alberta against the Company in which the plaintiffs alleged, 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 sought injunctions and damages of $32.0 million as compensation. On February 3, 2011, the Alberta Court of Queen's Bench granted an application by the Company to stay the Court proceedings in respect of this Claim, on the grounds that the Claim was subject to an arbitration agreement and an arbitration tribunal had previously been appointed to adjudicate the same subject matter as the Claim. The arbitration had itself been stayed since April 2009, due to the failure by the plaintiffs to pay a deposit required by the arbitration tribunal for the arbitrators' fees and expenses.

Effective May 1, 2012, a settlement agreement was reached between the plaintiffs and the Company, resolving all claims by the plaintiffs in return for the release to the plaintiffs of two certificates for shares of the Company which had been issued to the plaintiffs in 2008 and which certificates were being held in escrow. No funds were paid to the plaintiffs by the company in settling this claim. The settlement agreement stipulates that all actions against the Company will be discontinued, and the plaintiffs' court action as well as the arbitration have now accordingly been formally discontinued.

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Tony Anton P.Eng.

President and
Chief Operating Officer

Olivier Serra

Chief Financial Officer

Mike Zayat

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Ahmed Farid Moaaz

Country Manager and Director

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Symbol: SDX

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