Independent Auditor's REPORT

April 11, 2013

To the Shareholders of Sea Dragon Energy Inc.

We have audited the accompanying consolidated financial statements of Sea Dragon Energy Inc., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sea Dragon Energy Inc. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

Consolidated Balance Sheets

(thousands of United States dollars)	Note	As at December 31, 2012	As at December 31, 2011
Assets			
Cash and cash equivalents	6	**5,658**	6,125
Trade and other receivables	7	**8,072**	12,230
Inventory	8	**3,301**	–
Deferred transaction costs	11	**370**	370
Current assets		**17,401**	18,725
Deferred transaction costs	11	**1,019**	1,390
Property, plant and equipment, net	9	**33,586**	33,609
Intangible exploration and evaluation assets	10	**–**	21,939
Non-current assets		**34,605**	56,938
Assets		**52,006**	75,663
Liabilities			
Bank indebtedness	11	**3,000**	3,000
Trade and other payables	12	**7,756**	3,786
Current liabilities		**10,756**	6,786
Equity			
Share capital	13	**119,574**	119,574
Warrants	15	**–**	4,122
Contributed surplus		**7,892**	3,289
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(83,739)**	(55,631)
Equity		**41,250**	68,877
Equity and liabilities		**52,006**	75,663

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

Approved on behalf of the Board of Directors

Said Arrata
Chief Executive Officer

Olivier Serra
Chief Financial Officer

Consolidated Statement of Comprehensive Loss

(thousands of United States dollars, except per share data)	Note	YEAR ENDED DECEMBER 31 2012	2011
Oil revenue, net of royalties	*16*	**21,194**	20,494
Other income	*16*	**–**	92
Revenue		**21,194**	20,586
Direct operating expense		**3,680**	3,007
Exploration and evaluation expense	*10*	**3,444**	997
Depletion, depreciation and amortization	*9*	**4,215**	3,859
Impairment expense	*9, 10*	**28,042**	13,660
Foreign exchange loss		**152**	34
Stock based compensation		**481**	708
Loss on disposal of fixed assets		**24**	–
Gain on acquisition	*8*	**(1,729)**	–
General and administrative expenses	*17*	**4,663**	5,961
Operating income loss		**(21,778)**	(7,640)
Finance income	*18*	**–**	(25)
Finance expense	*18*	**1,129**	180
Loss before income taxes		**(22,907)**	(7,795)
Current income tax expense	*19*	**5,201**	5,043
Total comprehensive loss for the year		**(28,108)**	(12,838)
Net loss per share – basic and diluted	*20*	**(0.07)**	(0.03)

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

Consolidated Statement of Changes in Equity

(thousands of United States dollars)	Note	2012	2011
		YEAR ENDED DECEMBER 31	
Share Capital			
Balance, beginning of year		**119,574**	119,574
Balance, end of year		**119,574**	119,574
Warrants			
Balance, beginning of year		**4,122**	4,122
Transfer to contributed surplus on expiration of warrants		**(4,122)**	–
Balance, end of year		**–**	4,122
Contributed Surplus			
Balance, beginning of year		**3,289**	2,581
Share based payments		**481**	708
Transfer to contributed surplus on expiration of warrants		**4,122**	–
Balance, end of year		**7,892**	3,289
Accumulated Other Comprehensive Loss			
Balance, beginning of year		**(2,477)**	(2,477)
Balance, end of year		**(2,477)**	(2,477)
Accumulated Deficit			
Balance, beginning of year		**(55,631)**	(42,793)
Total comprehensive loss for the year		**(28,108)**	(12,838)
Balance, end of year		**(83,739)**	(55,631)
Total Equity		**41,250**	68,877

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

Consolidated Statement of Cash Flows

For the years ended December 31, 2012 and 2011

(thousands of United States dollars)	Note	YEAR ENDED DECEMBER 31 2012	 2011
Cash flows from/(used in) operating activities			
Net loss for the year		**(28,108)**	(12,838)
Adjustments for:			
Depletion, depreciation and amortization	*9*	**4,215**	3,859
Exploration and evaluation expense	*10*	**–**	294
Impairment expense	*9, 10*	**28,042**	13,660
Amortization of deferred transaction costs	*11*	**371**	–
Unrealized foreign exchange loss		**(64)**	(58)
Stock–based compensation		**481**	708
Gain on acquisition	*8*	**(1,729)**	–
Loss on disposal of fixed assets		**24**	–
Operating cash flows before change in non–cash working capital		**3,232**	5,625
Change in non–cash working capital		**4,111**	(7,525)
Net cash from/(used in) operating activities		**7,343**	(1,900)
Cash flows from/(used in) investing activities:			
Property, plant and equipment expenditures	*9*	**(7,382)**	(7,956)
Exploration and evaluation expenditures	*10*	**(973)**	(68)
Acquisition of Shukheir Marine concession	*8*	**(250)**	–
Cash acquired in Shukheir Marine acquisition	*8*	**731**	–
Net cash used in investing activities		**(7,874)**	(8,024)
Cash flows from/(used in) financing activities:			
Transaction costs		**–**	(1,760)
Proceeds from bank facility	*11*	**5,000**	3,000
Repayment of debt	*11*	**(5,000)**	–
Net cash from financing activities		**–**	1,240
Change in cash and cash equivalents		**(531)**	(8,684)
Effect of foreign exchange on cash and cash equivalents		**64**	58
Cash and cash equivalents, beginning of year		**6,125**	14,751
Cash and cash equivalents, end of year		**5,658**	6,125
Supplemental information			
Interest paid	*18*	**182**	10

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

(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 financial statements of the Company as at and for the years ended December 31, 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:

(a) Statement of compliance:

The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and interpretations (collectively referred to as "IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies that follow set out those policies that apply in preparing the audited consolidated financial statements for the year ended December 31, 2012. The policies applied are based on IFRS issued and outstanding as of April 11, 2013, the date the Board of Directors approved the statements.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

These audited consolidated financial statements are expressed in United States dollars ($ or US$), which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

In the accounting for property, plant and equipment, amounts recorded for depletion and amounts used for impairment test calculations are based on estimates of oil and gas reserves and cash flows, including development costs, production volumes and oil and gas prices. The provision for decommissioning costs and related accretion expense, derivative fair value calculations, fair value of share-based payments expense, deferred tax provisions, as well as fair values assigned to any identifiable assets and liabilities in business combinations are also based on estimates. By their nature, the estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

Note 3 Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

(a) Basis of consolidation:

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled assets:

The Company is engaged in oil and gas exploration, development and production through unincorporated joint ventures ("Joint Ventures"). The Company accounts for its share of the results and net assets of these Joint Ventures as jointly controlled assets. The consolidated interim financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency:

Transactions in foreign currencies are translated to United States dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate.

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Cash and cash equivalents:

Cash and cash equivalents are comprised of cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are designated as loans and receivables.

Financial assets at fair value through profit or loss:

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments are measured at fair value, and changes therein are recognized in profit or loss.

Financial liabilities:

Financial liabilities at amortized costs include trade payables and bank debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Trade and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Bank debt is recognized initially at fair value, and subsequently at amortized cost using the effective interest method. This is classified as current liabilities if payment is due within twelve months. Otherwise they are presented as non-current.

(ii) Equity instruments:

Equity instruments are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects, if any.

(d) Inventory:

Inventories consist of tangible drilling materials, as well as consumable materials. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less applicable selling expenses.

(e) Property, plant and equipment and intangible exploration and evaluation assets:

(i) Recognition and measurement:

Development and production costs:

Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Expenditures on major maintenance, inspections or overhauls are capitalized when the item enhances the life or performance of an asset above its original standard. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance expenditures are expensed as incurred.

Intangible exploration and evaluation expenditures:

Pre-licence costs are recognized in the statement of operations as incurred.

Exploration and evaluation expenditures, including the costs of acquiring licences and directly attributable general and administrative costs, geological and geophysical costs, other direct costs of exploration (drilling, trenching, sampling and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as intangible exploration and evaluation ("E&E") assets.

On a quarterly basis, a review of any areas classified and accounted for as E&E is performed to determine whether enough information exists to make a determination of the technical feasibility and commercial viability of the area. Where appropriate, review may indicate that an area should be further sub-divided due to a significant portion having been explored whilst a significant undeveloped portion with different traits (i.e. different zone, technical approach, play type, etc.) remains that requires additional E&E activities to arrive at the point where it can be assessed for technical feasibility and commercial viability.

The assessment of technical feasibility and commercial viability is performed on an area level basis unless further sub-division is merited. Depending on the extent and complexity of the prospective play, many wells may need to be drilled and potentially significant E&E costs accumulated prior to obtaining enough information to make the determination of technical feasibility and commercial viability possible.

E&E costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then, the carrying value of the relevant E&E asset will be reclassified as a development and production asset ("D&P") into the cash generating unit ("CGU") to which it relates, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. Typically, technical feasibility and commercial viability of extracting a mineral resource is considered to be demonstrable when proven or probable reserves are determined to exist. However, if the Company determines the area is not technically feasible and commercially viable, accumulated E&E costs are expensed.

(ii) Depletion and depreciation:

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for other assets for the current and comparative years are as follows:

Office equipment	5 – 12 years
Fixtures and fittings	5 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed when there is a significant change in the underlying estimates or other objective evidence. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

Exploration and evaluation costs are tested for impairment when reclassified to D & P assets or whenever facts and circumstances indicate potential impairment. Exploration and evaluation assets are tested separately for impairment. An impairment loss is recognized for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the cash generating unit or "CGU"). The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. An impairment loss is charged to the income statement. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(g) Share based payments:

The grant date fair value of options granted to employees is recognized as stock based compensation expense, with a corresponding increase in contributed surplus over the vesting period. Each tranche granted is considered a separate grant. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Segment Reporting:

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive directors that make strategic decisions.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(j) Decommissioning obligations:

The Company's activities can give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

There is no legal or constructive liability in the current country of operation that would require the company to recognize a decommissioning liability.

(k) Revenue:

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline or delivered to the refinery. Revenue is measured net of discounts, customs duties and royalties.

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(l) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. 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. Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

(m) Earnings per share:

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(n) Accounting standards issued but not yet applied:

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has done a preliminary assessment of the impact of these new and amended standards and does not expect a significant impact to the financial statements.

The following is a brief summary of the new standards:

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has done a preliminary assessment of the impact of this standard and determined that it will not have a significant impact on the financial statements.

Note 4 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.

(a) 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 5 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	
	December 31, 2012	December 31, 2011
Cash and cash equivalents	**5,658**	6,125
Trade and other receivables	**8,072**	12,230
Total	**13,730**	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 December 31, 2012 and 2011.

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

	CARRYING AMOUNT	
	December 31, 2012	December 31, 2011
Government of Egypt controlled corporations	**7,418**	11,215
Joint venture partners	**539**	677
Other	**115**	338
Total trade and other receivables	**8,072**	12,230

The Company's most significant customer, a government controlled corporation in Egypt, accounts for $3.4 million of the trade receivables at December 31, 2012 (December 31, 2011: $7.6 million).

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

	2012	2011
Current (less than 90 days)	**5,944**	7,646
Past due (more than 90 days)	**2,128**	4,584
Total	**8,072**	12,230

The balances which are past due are not considered impaired.

Subsequent to December 31, 2012 the Company collected $6.2 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.

As at December 31, 2012, the Company's financial liabilities are due within one year.

(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 has been so far able to utilize the EGP locally, with the remainder being exchanged from time to time into US$, therefore reducing the Company's exposure to foreign exchange risk during 2012.

The table below shows the Company's exposure to foreign currencies for its financial instruments:

	Total per FS[1]	US$	EGP	EUR	CAD
As at December 31, 2012				*US$ Equivalent*	
Cash and cash equivalents	5,658	4,023	1,428	85	122
Trade and other receivables	8,072	8,003		25	44
Bank indebtedness	(3,000)	(3,000)	–	–	–
Trade and other payables	(7,756)	(4,181)	(3,227)	(163)	(185)
Balance sheet exposure	2,974	4,845	(1,799)	(53)	(19)

[1] *denotes Financial Statements*

The average exchange rate during the year ended December 31, 2012 was 1 US$ equals $0.9996CDN$ (2011 – 1 US$: $0.9891 CDN$). The exchange rate at December 31, 2012 was 1 US$ equals $0.9949 Canadian dollar (2011 – 1 US$: $1.0170 CDN$).

(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.

At December 31, 2012 the Company did not have any outstanding derivatives in place.

(g) Capital management:

The Company defines and computes its capital as follows:

	December 31, 2012	December 31, 2011
Equity	**41,250**	68,877
Working capital [1]	**(6,645)**	(11,939)
Total capital	**34,605**	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 6 Cash and cash equivalents:

	December 31, 2012	December 31, 2011
Bank balances	**5,658**	6,125

Cash at the banks earns interest at floating rates based on the daily bank deposit rates.

Note 7 Trade and other receivables:

	December 31, 2012	December 31, 2011
Current		
Trade receivables	**7,418**	11,215
Other receivables	**654**	1,015
	8,072	12,230

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 60 to 180 days. Other receivables primarily relate to prepaid insurance and receivables due from joint venture partners.

Trade receivables of $2.1 million (December 31, 2011 $9.7 million) are more than thirty days past due but are not considered impaired. The other classes within trade and other receivables do not contain impaired assets.

Note 8 Acquisition

Shukheir Marine

On December 6, 2012, the Company, through its wholly-owned subsidiary, Sea Dragon Energy Holding Ltd. (BVI), acquired all of the assets of National Petroleum Company Shukheir Marine Ltd ("NPC SHM") for cash consideration of $0.25 million plus the assumption of NPC SHM's working capital deficiency excluding accounts receivable. The effective date of the transaction was December 1, 2012. The results of NPC SHM have been included in the consolidated financial statements of the Company since that date.

In accordance with IFRS 3, the acquisition has been accounted for using the purchase method with the Company as the acquirer. The following table presents the fair value of consideration given and net assets acquired:

Consideration transferred:	
Cash	**250**
Net identifiable assets and liabilities acquired:	
Cash	**731**
Inventory	**3,306**
Property, plant and equipment	**1,964**
Trade and other payables	**(4,022)**
Total net identifiable assets acquired	**1,979**
Gain on acquisition	**(1,729)**

The assets of NPC SHM include a 100% participating interest in the Shukheir Marine development concession which contains the Shukheir Bay and the Gamma oil fields both of which are located in the shallow offshore Gulf of Suez. NPC SHM owns oil field inventory, which can be applied toward operations and future drilling activity, valued at $3.3 million.

As a result of the acquisition, NPC SHM is now a wholly owned indirect subsidiary of the Company.

Note 9 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	7,382	–	7,382
Acquisition	1,964	–	1,964
Transfer from intangible exploration assets	3,690	–	3,690
Disposals	–	(24)	(24)
Balance at December 31, 2012	**67,985**	**366**	**68,351**
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 year	(4,163)	(52)	(4,215)
Impairment for the year	(8,820)	–	(8,820)
Balance at December 31, 2012	**(34,536)**	**(229)**	**(34,756)**
Property, plant and equipment, net	**33,449**	**137**	**33,586**

During the year ended December 31, 2012, the Company capitalized $1.6 million of general and administrative costs related to development and production activities in Egypt (December 31, 2011 - $2.0 million).

At December 31, 2012, future development costs totaling $4.6 million (December 31, 2011 - $28.6 million) have been included in costs subject to depletion.

At December 31, 2012, the Company transferred $3.7 million of intangible exploration and evaluation assets to property, plant and equipment, see note 10.

At the reporting date, an impairment test was triggered due to reserve revisions in the fourth quarter of 2012. The impairment test was carried out on both the Kom Ombo and NW Gemsa fields in accordance with the accounting policy note stated in note 3. The recoverable amounts of the fields have been determined based on 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 relating the underlying cash generating unit. Based on this calculation, there is an impairment recorded for the Kom Ombo field of $8.8 million. The current discount factor applied to the NW Gemsa impairment test results in an excess of recoverable amount over the carrying value of the NW Gemsa cash generating unit of $18.1 million.

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

2013	2014	2015	2016	2017	2018
$105.00	$102.00	$100.00	$98.00	$97.38	$99.38

2019	2020	2021	2022	2023
$101.41	$103.48	$105.59	$107.74	$109.94

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the impairment of the Kom Ombo field would be $11.0 million, and an excess of recoverable amount over the carrying value of the NW Gemsa cash generating unit of $12.7 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 Kom Ombo field would be $6.0 million, and an excess of recoverable amount over the carrying value of the NW Gemsa cash generating unit of $25.7 million.

Note 10 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 year	(19,222)
Transfers to property, plant and equipment	(3,690)
Balance at December 31, 2012	**–**

Intangible exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves in the Kom Ombo concession. During the year ended December 31, 2012 the Company recognized an impairment loss 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 December 31, 2012, the Company has completed the evaluation procedures on the exploration projects in the Kom Ombo concession, and based on the work completed, it was determined that there are technically feasible and commercially viable reserves available. Therefore, the Company transferred $3.7 million of intangible exploration and evaluation assets to property, plant and equipment.

At the reporting date, an impairment test was carried out immediately prior to reclassification of the intangible exploration and evaluation assets in accordance with the Company's policy under note 3. 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 excess of the recoverable amount over the carrying value of $9.5 million.

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

2013	2014	2015	2016	2017	2018
$105.00	$102.00	$100.00	$98.00	$97.38	$99.38

2019	2020	2021	2022	2023
$101.41	$103.48	$105.59	$107.74	$109.94

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the excess of the recoverable amount over the carrying value of $6.0 million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the excess of the recoverable amount over the carrying value of $11.8 million.

During the year ended December 31, 2012, the Company incurred $3.4 million ($1.0 million - 2011) in pre-license costs which were expensed. The pre-license costs consist of $2.5 million in business development costs, $0.8 million in dry hole costs and $0.1 million in exploration and evaluation expense.

Note 11 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 December 31, 2012 this resulted in amounts available for borrowing of $11.4 million under tranche A and $5.7 million under tranche B. The Facility includes standard borrowing base ratios and other customary information 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 year ended December 31, 2012.

As at December 31, 2012, $3.0 million was drawn on the facility, all of which is classified as current:

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

As at December 31, 2012 there is $1.4 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 $1.0 million over the remainder of the term. For the year ended December 31, 2012 there has been $370,509, of transaction costs amortized which is included in the finance expenses.

Subsequent to December 31, 2012, the Company drew $2.0 million on the facility, and repaid $1.0 million.

Note 12 Trade and other payables:

	December 31, 2012	December 31, 2011
Current		
Trade payables	**6,993**	3,290
Accruals	**588**	496
	7,581	3,786

Trade payables are non-interest bearing and are normally settled on 30 day terms. Accruals represent mainly professional fees, and bank commitment fees. All current trade and other payables are interest free and payable within 12 months.

Note 13 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, 2012 and 2011	**376,459**	**119,574**

Note 14 Stock Options:

The Company has an option program that entitles officers, directors, employees and certain consultants to purchase shares in the Company.

On December 28, 2012 the Company granted 18,350,000 options to purchase common shares under Sea Dragon's stock option plan, of which 15,050,000 were granted to officers and directors. Each option has an exercise price of $0.10 CDN, vests annually over the next three years and expires on December 28, 2017.

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

	Number of Shares *(000's)*	Amount *(CDN$)*
Outstanding January 1, 2011	**13,250**	**0.40**
Forfeited during the year	(1,300)	0.46
Granted during the year	8,060	0.13
Outstanding December 31, 2011	**20,010**	**0.29**
Outstanding January 1, 2012	**20,010**	**0.29**
Forfeited during the year	(2,750)	0.25
Granted during the year	18,350	0.10
Outstanding December 31, 2012	**35,610**	**0.19**
Exercisable December 31, 2012	**12,103**	**0.36**

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

	OUTSTANDING OPTIONS		VESTED OPTIONS	
Exercise Price Range	Number of options	Remaining contractual life	Number of options	Remaining contractual life
$0.01 to $0.18	27,510,000	4.3 years	4,719,968	2.5 years
$0.19 to $0.39	3,150,000	2.6 years	2,433,329	2.6 years
$0.40 to $0.59	1,450,000	1.9 years	1,450,000	1.9 years
$0.60 to $0.79	3,500,000	0.6 years	3,500,000	0.6 years
	35,610,000	3.7 years	12,103,297	1.9 years

The fair value of the options granted during 2012 and 2011 were estimated using the Black Scholes model with the following weighted average inputs:

	2012	2011
Fair value at grant date *(CDN)*	**$0.04**	$0.10
Share price *(CDN)*	**$0.06**	$0.13
Exercise price *(CDN)*	**$0.10**	$0.13
Volatility *(%)*	**106**	108
Forfeiture *(%)*	**1.78**	0.67
Option life	**5 years**	5 years
Dividends *(%)*	**0**	0
Risk-free interest rate *(%)*	**1.3**	2.1

Note 15 Warrants:

As at December 31, 2012 the Company had no outstanding share purchase warrants. The warrants expired on November 6, 2012.

	Number of Warrants *(000's)*	Exercise Price *(CDN$)*
Outstanding and exercisable, December 31, 2011	**30,000**	**0.50**
Expired during the year	(30,000)	0.50
Outstanding and exercisable, December 31, 2012	**–**	**–**

Note 16 Revenue:

	Year ended December 31, 2012	Year ended December 31, 2011
Oil revenue	**44,998**	41,901
Royalties	**(23,804)**	(21,407)
Oil revenue, net of royalties	**21,194**	20,494
Other income	**–**	92
Revenue	**21,194**	20,586

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

Other income for the year ended December 31, 2011 is a result of a gain on sale of assets which were previously written off.

Note 17 General and Administration expenses

	Year ended December 31, 2012	Year ended December 31, 2011
Wages and employee costs	**1,469**	1,860
Consultants	**722**	1,713
Travel	**126**	387
Office expense	**796**	807
Foreign offices	**1,527**	1,179
Finance/banking	**23**	15
Total	**4,663**	5,961

Key management personnel have been identified as the board of directors and the five executive officers of the Company. Details of key management remuneration are shown in note 25.

Note 18 Financing costs

	December 31, 2012	December 31, 2011
Finance income	**–**	(25)
Finance expense	**1,129**	180
Net financing cost	**1,129**	155

The finance income is interest earned on short term deposits and cash at banks. The finance expense consists of transaction costs, interest expense and commitment fees related to the Facility.

Note 19 Deferred Income Tax:

As at December 31, 2012 no deferred tax asset was recognized in the statement of financial position for the following deductible temporary differences:

	2012	2011
Property and equipment	**25,321**	25,538
Non-capital losses	**38,303**	27,680
Share issue costs	**1,820**	4,090
Deferred income tax asset	**65,444**	57,308

The Company has non-capital losses of $38.3 million that expire between 2026 and 2032.

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.

The Canadian statutory tax rate decreased to 25.0% in 2012 from 26.5% in 2011 as a result of tax legislation enacted in 2007.

Income taxes vary from the amount that would be computed by applying the Canadian statutory income tax rate of 25.0% (2011-26.5%) to income before taxes as follows:

	2012	2011
Loss before income taxes	**(22,907)**	(7,795)
Canadian statutory income tax rate	**25.0%**	26.5%
Expected income taxes (recovery)	**(5,727)**	(2,066)
Adjustments:		
Stock based compensation	**120**	188
Unrecognized income tax benefit	**2,034**	2,053
Foreign tax rate differential	**1,994**	1,934
Expenses incurred with no recognized tax benefit	**7,316**	3,672
Change in income tax rates and certain tax balances	**(104)**	(743)
Gain on acquisition	**(432)**	–
Other	**–**	6
Current income taxes	**5,201**	5,043

Note 20 Loss per share:

	Year ended December 31, 2012	Year ended December 31, 2011
Net loss for the year	**(28,108)**	(12,838)
Weighted average number of shares *(000's)*		
Basic & Diluted	**376,459**	376,459
Per share amount - basic & diluted	**$ (0.07)**	$ (0.03)

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 21 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.

	YEAR ENDED DECEMBER 31, 2012			YEAR ENDED DECEMBER 31, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Segment revenue	**–**	**21,194**	**21,194**	–	20,586	20,586
Segment direct operating expenses	**–**	**3,680**	**3,680**	–	3,007	3,007
Segment exploration and evaluation expense	**2,533**	**911**	**3,444**	–	997	997
Segmented depletion, depreciation and amortization	**52**	**4,163**	**4,215**	52	3,807	3,859
Segmented impairment	**–**	**28,042**	**28,042**	–	13,660	13,660
Segmented foreign exchange loss	**152**	**–**	**152**	34	–	34
Segmented stock based compensation	**481**	**–**	**481**	708	–	708
Segmented loss on disposal of fixed assets	**–**	**24**	**24**	–	–	–
Segmented gain on acquisition	**(1,729)**	**–**	**(1,729)**	–	–	–
Segment general and administrative expenses	**3,853**	**810**	**4,663**	5,425	536	5,961
Segment operating loss	**(5,342)**	**(16,436)**	**(21,778)**	(6,219)	(1,421)	(7,640)
Segmented finance income	**–**	**–**	**–**	(25)	–	(25)
Segmented finance expense	**1,129**	**–**	**1,129**	180	–	180
Segmented loss before income tax	**(6,471)**	**(16,436)**	**(22,907)**	(6,374)	(1,421)	(7,795)
Current income tax expense	**–**	**5,201**	**5,201**	–	5,043	5,043
Comprehensive loss for the year	**(6,471)**	**(21,637)**	**(28,108)**	(6,374)	(6,464)	(12,838)

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

	DECEMBER 31, 2012			DECEMBER 31, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Segment assets	**6,133**	**45,873**	**52,006**	6,018	69,645	75,663
Segment liabilities	**3,883**	**6,873**	**10,756**	4,432	2,354	6,786

The segment capital expenditures for the year ended December 31, 2012 and 2011 are as follows:

	Year ended December 31, 2012			Year ended December 31, 2011		
	Canada	**Egypt**	**Total**	Canada	Egypt	Total
Capital additions	**–**	**8,355**	**8,355**	21	8,003	8,024

Note 22 Commitments:

Pursuant to the concession agreements in Egypt, the Company was required to perform certain minimum exploration activities that included the drilling of exploration wells. These obligations have not been provided for in the financial statements. Currently there are no anticipated commitments under the contracts:

	2012	2011
Less than one year	**–**	750
Between one and five years	**–**	–
More than five years	**–**	–
	–	750

Operating leases

The Company has office lease commitments in Calgary, Paris and Cairo. Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	**471**	465
Between one and five years	**1,787**	1,429
More than five years	**30**	731
	2,288	2,625

Note 23 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.

Note 24 Related party transactions:

All subsidiaries are listed below. A list of the investments in subsidiary undertakings (all of whose operations comprise one class of business, being Oil and Gas Exploration, Development and Production), including the name, proportion of ownership interest, country of operation and country of registration, is given below.

Name	Percentage	Country of operation	Country of registration
Sea Dragon Energy (NW Gemsa) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy (Kom Ombo) Ltd.	100%	Egypt	Bermuda
Sea Dragon Energy (France) SAS	100%	France	France
Sea Dragon Holdings Ltd. (Alberta)	100%	Canada	Canada
Sea Dragon Cooperatieve U.A. (Netherlands)	100%	Netherlands	Netherlands
Sea Dragon Energy Holding B.V. (Netherlands)	100%	Netherlands	Netherlands
Sea Dragon Energy (Kom Ombo) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy (GOS) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy Holding Ltd. (BVI)	100%	British Virgin Islands	British Virgin Islands
Sea Dragon Energy (Shukheir Marine) Ltd (BVI)	100%	Egypt	British Virgin Islands

During the year, the Company entered into a consulting agreement with a director. The Company has paid $0.1 million in relation to this agreement during the year ended December 31, 2012.

Note 25 Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Salaries, incentives and short term benefits	**1,034**	1,306
Stock based compensation	**401**	540
Total	**1,435**	1,846

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

Note 26 Subsequent Events

During the first quarter of 2013 additional testing results from the West Al Baraka field were significantly lower than anticipated. These results are an indicator of impairment for the Kom Ombo concession and as a result the carrying amount will be tested for impairment in the subsequent period.