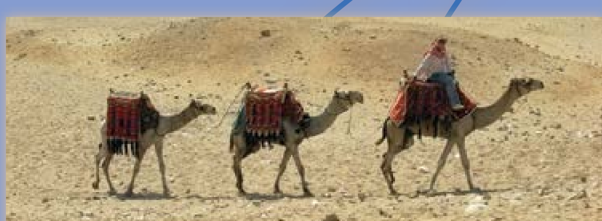
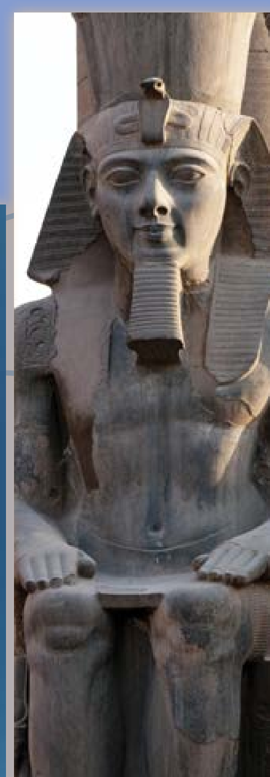
Financial Statements





Independent Auditor's REPORT

March 31, 2014

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 sheet as at December 31, 2013 and the consolidated statement of comprehensive loss, changes in equity and cash flows for the year 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 audit. We conducted our audit 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 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, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of Sea Dragon Energy Inc. for the year ended December 31, 2012 were audited by the Canadian firm of PricewaterhouseCoopers LLP whose report, dated April 11, 2013, expressed an unmodified opinion on those statements. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom

Consolidated Balance Sheet

For the years ended December 31, 2013 and 2012

(thousands of United States dollars)	Note	As at December 31, 2013	As at December 31, 2012
Assets			
Cash and cash equivalents	*6*	**4,287**	5,658
Trade and other receivables	*7, 8*	**7,130**	8,072
Inventory		**3,279**	3,301
Deferred transaction costs	*11*	**371**	370
Current assets		**15,067**	17,401
Deferred transaction costs	*11*	**648**	1,019
Property, plant and equipment, net	*9*	**23,062**	33,586
Intangible exploration and evaluation assets	*10*	**752**	–
Non-current assets		**24,462**	34,605
Assets		**39,529**	52,006
Liabilities			
Bank indebtedness	*11*	**–**	3,000
Trade and other payables	*12*	**5,188**	7,756
Current liabilities		**5,188**	10,756
Equity			
Share capital	*13*	**119,574**	119,574
Contributed surplus		**8,691**	7,892
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(91,447)**	(83,739)
Equity		**34,341**	41,250
Equity and liabilities		**39,529**	52,006

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

Approved on behalf of the Board of Directors

Paul Welch
Chief Executive Officer

Olivier Serra
Chief Financial Officer

Consolidated Statement of Comprehensive Loss

For the years ended December 31, 2013 and 2012

(thousands of United States dollars, except per share data)	Note	YEAR ENDED DECEMBER 31 2013	2012
Revenue, net of royalties	*15*	**29,420**	21,194
Revenue		**29,420**	21,194
Direct operating expense		**8,562**	3,680
Exploration and evaluation expense	*10*	**668**	3,444
Depletion, depreciation and amortization	*9*	**4,734**	4,215
Impairment expense	*9, 10*	**7,158**	28,042
Foreign exchange loss		**452**	152
Stock based compensation		**799**	481
Loss on disposal of office assets		**69**	24
Loss on disposal of Kom Ombo concession	*8*	**1,291**	–
(Gain) on acquisition		**–**	(1,729)
General and administrative expenses	*16*	**6,091**	4,663
Operating (loss)		**(404)**	(21,778)
Finance expense	*17*	**856**	1,129
(Loss) before income taxes		**(1,260)**	(22,907)
Current income tax expense	*18*	**6,448**	5,201
Total comprehensive (loss) for the year		**(7,708)**	(28,108)
Net (loss) per share – basic and diluted	*19*	**(0.02)**	(0.07)

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

Consolidated Statement of Changes in Equity

For the years ended December 31, 2013 and 2012

(thousands of United States dollars)	Note	YEAR ENDED DECEMBER 31 2013	 2012
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
Transfer to common shares on exercise of warrants		**–**	(4,122)
Balance, end of year		**–**	–
Contributed Surplus			
Balance, beginning of year		**7,892**	3,289
Share based payments		**799**	481
Transfer to contributed surplus on expiration of warrants		**–**	4,122
Balance, end of year		**8,691**	7,892
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		**(83,739)**	(55,631)
Total comprehensive (loss) for the year		**(7,708)**	(28,108)
Balance, end of year		**(91,447)**	(83,739)
Total Equity		**34,341**	41,250

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

Consolidated Statement of Cash Flows

For the years ended December 31, 2013 and 2012

(thousands of United States dollars)	Note	YEAR ENDED DECEMBER 31 2013	2012
Cash flows from operating activities			
Net loss for the year		**(7,708)**	(28,108)
Adjustments for:			
Depletion, depreciation and amortization	*9*	**4,734**	4,215
Impairment expense	*9, 10*	**7,158**	28,042
Amortization of deferred transaction costs	*11*	**371**	371
Unrealized foreign exchange (gain)/loss		**317**	(64)
Stock-based compensation		**799**	481
(Gain) on acquisition		**–**	(1,729)
Loss on disposal of office assets		**69**	24
(Gain) on disposal of Kom Ombo concession	*8*	**(329)**	–
Operating cash flows before change in non-cash working capital		**5,411**	3,232
Change in non-cash working capital including non-current provision		**(3,316)**	4,111
Net cash from operating activities		**2,095**	7,343
Cash flows (used in) investing activities:			
Property, plant and equipment expenditures	*9*	**(6,385)**	(7,382)
Exploration and evaluation expenditures	*10*	**(752)**	(973)
Acquisition of Shukheir Marine concession		**–**	(250)
Cash acquired in Shukheir Marine acquisition		**–**	731
Cash from disposal of materials inventory		**411**	–
Cash from disposal of office assets		**11**	–
Cash from disposal of Kom Ombo concession		**6,566**	–
Net cash (used in) investing activities		**(149)**	(7,874)
Cash flows (used in) financing activities:			
Proceeds from bank facility	*11*	**6,360**	5,000
Repayment of debt	*11*	**(9,360)**	(5,000)
Net cash (used in) financing activities		**(3,000)**	–
Change in cash and cash equivalents		**(1,054)**	(531)
Effect of foreign exchange on cash and cash equivalents		**(317)**	64
Cash and cash equivalents, beginning of year		**5,658**	6,125
Cash and cash equivalents, end of year		**4,287**	5,658
Supplemental information			
Interest paid	*17*	**102**	182

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

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 1900, 520 – 3rd Avenue SW, Centennial Place, East Tower, Calgary Alberta T2P 0R3. The consolidated financial statements of the Company as at and for the years ended December 31, 2013 and 2012 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, 2013. The policies applied are based on IFRS issued and outstanding as of March 31, 2014.

(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 are 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) Joint arrangements:

The Company is engaged in oil and gas exploration, development and production through unincorporated joint arrangements ("Joint Operations"). The Company accounts for its share of the results and net assets of these Joint Operations as jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and liabilities 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 of 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 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 in 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 the Statement of Comprehensive Loss:

An instrument is classified at fair value through the Statement of Comprehensive Loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through the Statement of Comprehensive 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 the Statement of Comprehensive Loss when incurred. Financial instruments are measured at fair value, and changes therein are recognized in the Statement of Comprehensive 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.

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.

Financial assets:

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.

(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 the 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 the Statement of Comprehensive 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 comprehensive loss 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, this 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 the Statement of Comprehensive 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.

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

Office equipment	1-5 years
Fixtures and fittings	1-5 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 the Statement of Comprehensive 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 the Statement of Comprehensive 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 "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 is established.

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

(k) Revenue:

Revenue from the sale of oil, condensates, natural gas and natural gas liquids ("NGL") 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 the 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 the Statements of Comprehensive 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) New accounting standards adopted:

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective January 2013.

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.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

There has been no material change to the Company's financial statements as a result of the first time application of these standards.

(o) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for the annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 – Financial Instruments

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

The Company has assessed the impact of these standards and determined that they have no 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 historical 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 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, 2013	December 31, 2012
Cash and cash equivalents	**4,287**	5,658
Trade and other receivables	**7,130**	8,072
Total	**11,417**	13,730

NOTES

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

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 EGPC and Ganope, two Government of Egypt controlled corporations and are normally collected in two to four 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, 2013 and December 31, 2012.

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

	CARRYING AMOUNT	
	December 31, 2013	December 31, 2012
Government of Egypt controlled corporations	**4,629**	7,418
Joint venture partners	**579**	539
Other	**1,922**	115
Total trade and other receivables	**7,130**	8,072

The Company's most significant customers, EGPC and Ganope, government controlled corporations in Egypt, account for US$2.8 million and US$1.8 million respectively of the trade receivables at December 31, 2013 (December 31, 2012: US$7.0 million).

The other receivables of US$1.9 million consist of US$0.5 million accrued gas and liquids revenue yet to be invoiced, US$0.4 million due from Dana Gas in relation to Kom Ombo secondee costs, US$0.8 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession and US$0.2 million related to prepayments.

As at December 31, 2013 and December 31, 2012, the Company's trade and other receivables is aged as follows:

	2013	2012
Current (less than 90 days)	**6,848**	5,944
Past due (more than 90 days)	**282**	2,128
Total	**7,130**	8,072

The balances which are past due are not considered impaired.

Subsequent to December 31, 2013 the Company collected US$2.1 million from government of Egypt controlled corporations and US$0.3 million in relation to other receivables.

Cash and cash equivalents:

The Company limits exposure to credit risk by only investing in liquid securities and only with highly rated counterparties. The Company's cash and cash equivalents are currently held by banks with A or AA credit ratings. 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, 2013, 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$, EGP and the US$ and GBP and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in both US$ and EGP. The Company has been so far able to utilize EGP locally to fund local office general and administrative expenses as well as cash calls on both capital expenditure and operating expenditure, with the remainder being exchanged from time to time into US$, therefore reducing the Company's exposure to foreign exchange risk during the period.

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

	Total per FS [1]	US$	EGP	EUR	CAD	GBP
As at December 31, 2013			*US$ Equivalent*			
Cash and cash equivalents	4,287	3,372	198	47	161	509
Trade and other receivables	7,130	6,937	(5)	33	15	150
Trade and other payables	(5,188)	(1,969)	(2,670)	(43)	(313)	(193)
Balance sheet exposure	**6,229**	**8,340**	**(2,477)**	**37**	**(137)**	**466**

(1) denotes Financial Statements

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

The average exchange rates during the year ended December 31, 2013 were 1 US$ equals:

	AVERAGE: 1 JANUARY 2013 TO 31 DECEMBER 2013			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Period average	1.0298	0.6395	0.7532	6.8359

	AVERAGE: 1 JANUARY 2012 TO 31 DECEMBER 2012			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Period average	0.9996	0.631	0.7781	6.0325

The exchange rates at December 31, 2013 were 1 US$ equals:

	PERIOD END: 31 DECEMBER 2013			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Dec 31, 2013	1.0694	0.6064	0.7263	6.9124

	PERIOD END: 31 DECEMBER 2012			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Dec 31, 2012	0.9996	0.631	0.7781	6.0325

(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, 2013 the Company did not have any outstanding derivatives in place.

(g) Capital management:

The Company defines and computes its capital as follows:

	December 31, 2013	December 31, 2012
Equity	**34,341**	41,250
Working capital [1]	**(9,879)**	(6,645)
Total capital	**24,462**	34,605

[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, 2013	December 31, 2012
Bank balances	**4,287**	5,658
Cash and cash equivalents	**4,287**	5,658

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

Note 7 Trade and other receivables:

	December 31, 2013	December 31, 2012
Current		
Trade receivables	**4,630**	7,418
Other receivables	**2,500**	654
	7,130	8,072

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 60 to 120 days.

Trade receivables of US$2.2 million (December 31, 2012 US$2.1 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.

The other receivables of US$2.5 million consist of US$0.5 million accrued gas and liquids revenue yet to be invoiced, US$0.4 million due from Dana Gas in relation to Kom Ombo secondee costs, US$0.8 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession, US$0.2 million related to prepayments and US$0.6 million for the joint venture partner current accounts.

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

Note 8 Kom Ombo disposal:

On November 1, 2013, the Company completed the sale of all of the issued and outstanding shares of its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd (BVI) which held the Company's interest in the Kom Ombo concession. Kom Ombo was sold for a cash consideration of US$6.0 million and a working capital and interim period adjustment of US$1.3 million. The effective date of the transaction was March, 1 2013. The loss on disposal and the working capital and interim period adjustments are included within the consolidated financial statements for the Company.

The working capital and interim period adjustments represent i) the working capital (cash, trade receivables and trade payables) at the effective sale date of March 1, 2013, and ii) any cash related movements for the interim period of March 1 to November 1, 2013, when the sale was effectively completed.

IMPACT ON THE BALANCE SHEET

The working capital adjustments affecting the Balance Sheet are comprised of the following items:

WORKING CAPITAL ADJUSTMENT (as at the effective date)	
Bank balances	**(30)**
Trade receivables as at February 28, 2013	**3,668**
Trade payables as at February 28, 2013	**(2,293)**
TOTAL SETTLEMENT AMOUNT - due to Sea Dragon	**1,346**

INSTALMENTS RECEIVED	
Instalment one due October 30, 2013	**(283)**
Instalment two due on November 30,2013	**(283)**
SETTLEMENT AMOUNT OUTSTANDING AS AT DECEMBER 31, 2013	**780**

As per the Sale and Purchase Agreement ("SPA") for the sale of Kom Ombo, the settlement amount is to be paid in four equal instalments and is based upon the estimated working capital and interim period adjustments until such time as the final calculation has been agreed by both parties. As at December 31, 2013 two instalments had been received with two remaining outstanding. The third instalment of US$283k was received on February 19, 2014. The settlement amount of US$780k shown in the table above as outstanding at the Balance Sheet date is the remaining balance that Sea Dragon Energy expects to collect in 2014. Please reference Note 7, Trade and other receivables as the US$780k is a component of the US$7,130k.

Kom Ombo disposal (continued)

IMPACT ON THE STATEMENT OF COMPREHENSIVE LOSS

The loss on disposal of US$1.3 million appearing on the Statement of Comprehensive Loss is comprised of the following items:

- A (gain) on the sale of assets held for sale (see Note 9). This represents the excess of the net book value of those assets as at the effective date over the cash consideration received.

Cash consideration for the assets	**6,000**
Net book value of assets held for sale as at February 28, 2013	**5,734**
(Gain) on sale of assets as at February 28, 2013	**(266)**

- A book loss of Net Income on the Statement of Comprehensive Loss (revenue and direct operating costs) and Balance Sheet working capital items (accounts receivable and partner cash calls and billings excluding cash movements) for the interim period of March 1 to November 1, 2013. This has the effect of ensuring that Sea Dragon only recognizes the economic benefit of the Kom Ombo operations prior to the effective date of the sale (i.e. for January and February, 2013 only)

Revenues for the interim period	**3,049**
Opex for the interim period	**(1,193)**
Capex for the interim period	**(348)**
Sea Dragon Energy sale costs	**461**
Book Loss on the sale of Kom Ombo	**1,969**

- A (gain) on the sale of Kom Ombo materials inventory

Materials inventory sales	**(411)**

IMPACT ON THE STATEMENT OF CASH FLOWS

The effect of the disposal on the Cash Flow is a gain that appears on the Net Operating Cash Flow section and is comprised of the following items::

(GAIN) ON DISPOSAL OF KOM OMBO CONCESSION

(Gain) on sale of assets	**(266)**
Interim period capex	**348**
(Gain) on sale of materials inventory	**(411)**
(Gain) on disposal of Kom Ombo concession	**(329)**

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

Note 9 Property, plant and equipment:

	Oil interests	Asssets Held for Sale	Furniture and Fixtures	Total
Cost:				
Balance at December 31, 2011	**16,152**	**38,797**	**390**	**55,339**
Additions	3,028	4,354	–	7,382
Acquisitions	1,964	–	–	1,964
Transfer from intangible exploration assets	3,690	–	–	3,690
Disposals	–	–	(24)	(24)
Balance at December 31, 2012	**24,834**	**43,151**	**366**	**68,351**
Additions	6,735	468	329	7,532
Intergroup transfer	1,119	(1,119)	–	–
Disposals	–	(42,500)	(205)	(42,705)
Balance at December 31, 2013	**32,688**	**–**	**490**	**33,178**
Accumulated depletion and depreciation:				
Balance at December 31, 2011	**(4,952)**	**(16,601)**	**(177)**	**(21,730)**
Depletion and depreciation for the year	(1,352)	(2,811)	(52)	(4,215)
Impairment for the year	–	(8,820)	–	(8,820)
Balance at December 31, 2012	**(6,304)**	**(28,232)**	**(229)**	**(34,765)**
Depletion and depreciation for the year	(4,223)	(413)	(98)	(4,734)
Intergroup transfer	609	(609)	**–**	–
Impairment for the year	–	(7,158)	–	(7,158)
Disposals	–	36,412	129	36,541
Balance at December 31, 2013	**(9,918)**	**–**	**(198)**	**(10,116)**
Property, plant and equipment, net	**22,770**	**–**	**292**	**23,062**

During the year ended December 31, 2013, the Company capitalized US$2.3 million of general and administrative costs related to development and production activities in Egypt (December 31, 2012– US$1.6 million).

During the quarter ended March 31, 2013 an impairment test was triggered due to lower than anticipated testing results from the West Al Baraka field. The impairment test resulted in an impairment of US$7.2 million being recorded.

In calculating depreciation for 2013 future development costs of US$2.0 million (December 31, 2012 - US$4.6 million) have been included in cost for the purposes of calculating the depletion rate per barrel. The estimated future development costs represent costs the Company expects to incur in developing probable reserves.

The company completed the sale of the issued and outstanding shares of its indirect wholly-owned subsidiary Sea Dragon Energy (Kom Ombo) Ltd., which contained the oil interests related to the Kom Ombo concession on November 1, 2013. The oil interests were sold for a cash consideration of US$6 million plus US$1.2 million representing the working capital and interim period adjustments. As at Qtr. 3 2013 the Kom Ombo oil interests were re-classified as current assets held for sale.

An impairment test was carried out on the NW Gemsa and Shukheir Marine fields in accordance with the accounting policy note 3. No impairment was required.

Note 10 Intangible exploration and evaluation assets:

Cost:	
Balance at January 1, 2011	**21,939**
Additions	973
Impairment for the year	(19,222)
Transfers to property, plant and equipment	(3,690)
Balance at December 31, 2012	**–**
Additions	752
Balance at December 31, 2013	**752**

Intangible exploration and evaluation assets consist of the Company's Shehab-2 exploration well in the NW Gemsa concession (US$187k) and the costs associated with acquiring an interest in the South Ramadan concession (US$565k).

For the prior year ended December 31, 2012 the intangible assets related to the Kom Ombo concession. The Company recognized an impairment loss of US$19.2 million for 2012 and this was related to lands not developed in the Kom Ombo concession. The Company also completed evaluation procedures on the exploration projects as at December 31, 2012 and this resulted in a transfer of US$3.7 million to property, plant and equipment. The evaluation concluded that there were technically feasible and commercially viable reserves available.

There were no intangible assets for the Kom Ombo concession at the balance sheet date of December 31, 2012.

During the year ended December 31, 2013, the Company incurred US$0.7 million (US$3.4 million – 2012) in pre-license costs which were expensed. The pre-license costs consist of US$0.7 million in business development costs.

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 US$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), priced at LIBOR plus 3%.

As at December 31, 2013 this resulted in amounts available for borrowing of US$9.7 million under tranche A and US$2.5 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 December 31, 2013.

At December 31, 2013 the Facility remains in place although no amounts have been drawn down.

	December 30, 2013	December 31, 2012
Tranche A	–	–
Tranche B	–	3,000
Total	–	3,000

As at December 31, 2013 there is US$1.0 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 US$0.4 million is amortized within the next 12 months and US$0.6 million over the remainder of the term.

For the year ended December 31, 2013 there has been US$370,508, respectively, of transaction costs amortized which is included in the finance expenses.

Subsequent to December 31, 2013, the Company drew US$2.0 million on the Facility, and repaid US$0.5 million.

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

Note 12 Trade and other payables:

	December 31, 2013	December 31, 2012
Current		
Trade payables	**2,787**	6,993
Accruals	**2,175**	588
Other payables	**226**	175
	5,188	7,756

Trade payables are non-interest bearing and are normally settled on 30 day terms or where this differs in accordance with the supplier's terms and conditions of trade.

Accruals represent concession accruals for opex and capex, audit fees and reserve reporting.

Other payables represent deferred salary taxes in Egypt and payroll taxes in the U.K. All trade and other payables are considered current 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.

Issued Common Shares	Number of Shares *(000's)*	Amount *($)*
Balance December 31, 2013 and 2012	**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 June 7, 2013 the Company cancelled 15,350,000 options. Upon cancellation, the unvested portion of the options was accelerated and recognized immediately.

Effective October 11, 2013 the Company agreed to re-issue 4,400,000 options that were cancelled on June 7, 2013 on the same terms with a price of US$0.13 per share expiring July 8, 2016.

Effective January 29, 2104 the Company cancelled 4,660,000 options, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, Section 2.09.

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, 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**
Outstanding January 1, 2013	**35,610**	**0.19**
Cancelled during the year	(15,350)	0.31
Granted during the year	4,400	0.13
Outstanding December 31, 2013	**24,660**	**0.11**
Exercisable December 31, 2013	**12,377**	**0.12**

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
$0.10	24,010,000	3.6 years	11,826,647	3.4 years
$0.19 to $0.39	550,000	1.5 years	550,000	1.5 years
$0.40 to $0.50	100,000	0.9 years	–	–
	24,660,000	3.5 years	12,376,647	3.3 years

The fair value of the options granted during 2013 and 2012 were estimated using the Black Scholes model with the following weighted average inputs:

	2013	2012
Fair value at grant date *(CDN)*	**$0.03**	$0.04
Share price *(CDN)*	**$0.07**	$0.06
Exercise price *(CDN)*	**$0.13**	$0.10
Volatility *(%)*	**95**	106
Forfeiture *(%)*	**1.78**	1.78
Option life	**5 years**	5 years
Dividends *(%)*	**0**	0
Risk-free interest rate *(%)*	**1.2**	1.3

Note 15 Revenue:

	Year ended December 31, 2013	Year ended December 31, 2012
Oil revenue	**61,305**	44,998
Royalties	**(32,350)**	(23,804)
Oil revenue, net of royalties	**28,955**	21,194
Gas revenue	**301**	–
Royalties	**(126)**	–
Gas revenue, net of royalties	**175**	–
NGL revenue	**497**	–
Royalties	**(207)**	–
NGL revenue, net of royalties	**290**	–
Total net revenue	**29,420**	21,194

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

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

Note 16 General and Administration expenses

	Year ended December 31, 2013	Year ended December 31, 2012
Wages and employee costs	**929**	1,469
Professional fees	**629**	722
Travel	**204**	126
Office expense	**899**	796
Foreign offices	**2,442**	1,527
Bank charges	**16**	23
Restructuring costs	**972**	–
Total	**6,091**	4,663

One-off restructuring costs were as a result of the closure of the corporate office in Calgary and its relocation to London. As part of the restructuring the Company also closed its foreign office located in Paris, the effective date being August 31, 2013 however no additional costs were associated with the closure.

The Company incurred foreign office costs during the year ended December 31, 2013 from its offices in Cairo, Paris and London. The breakdown of costs for 2013 is as follows:

	Cairo	Paris	London	TOTAL
Wages and employee costs	513	292	618	**1,423**
Professional fees	46	23	290	**359**
Travel	72	72	102	**246**
Office expense	103	88	213	**404**
Bank charges	6	3	1	**10**
Total	740	478	1,224	**2,442**

Key management personnel have been identified as the board of directors and the four executive officers of the Company. Details of key management remuneration are shown in note 23.

Note 17 Financing costs

	December 31, 2013	December 31, 2012
Finance expense	**856**	1,129
Net financing cost	**856**	1,129

The finance expense consists of transaction costs, interest expense and commitment fees related to the Facility.

Note 18 Deferred Income Tax

As at December 31, 2013 no deferred tax asset was recognized in the statement of financial position for the following temporary deductible timing differences:

	2013	2012
Property and equipment	**25,173**	25,321
Non-capital losses	**45,972**	38,303
Share issue costs	**642**	1,820
Deferred income tax asset	**71,787**	65,444

	2013	2012
Loss before income taxes	**(1,260)**	(22,907)
Canadian statutory income tax rate	**25%**	25%
Expected income taxes (recovery)	**(315)**	(5,727)
Adjustments:		
Stock based compensation	**200**	120
Unrecognized income tax benefit	**1,586**	2,034
Foreign tax rate differential	**2,473**	1,994
Expenses incurred with no recognized tax benefit	**2,139**	7,316
Change in income tax rates and certain tax balances	**44**	(104)
Gain on acquisition	**323**	(432)
Other	**–**	
Current income taxes	**6,448**	5,201

The Company has non-capital losses of US$46.0 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 remained at 25% for 2013.

Note 19 Loss per share

	Year ended December 31, 2013	Year ended December 31, 2012
Net loss for the year	**(7,708)**	(28,108)
Weighted average number of shares *(000's)*		
Basic & Diluted	**376,459**	376,459
Per share amount - basic & diluted	**$ (0.02)**	$ (0.07)

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 year. 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.

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

Note 20 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 corporate offices in Canada and the UK and operations in Egypt. However the corporate office in Canada closed effective 1st November 2013. Set out below is segmented information on a geographic basis.

	YEAR ENDED DECEMBER 31, 2013				YEAR ENDED DECEMBER 31, 2012		
	Canada	Egypt	UK	Total	Canada	Egypt	Total
Segment revenue	**–**	**29,420**	**–**	**29,420**	–	21,194	21,194
Segment operating expenses	**–**	**8,562**	**–**	**8,562**	–	3,680	3,680
Segment exploration and evaluation expense	**371**	**293**	**4**	**668**	2,533	911	3,444
Segmented depletion, depreciation and amortization	**26**	**4,699**	**9**	**4,734**	52	4,163	4,215
Segmented impairment	**–**	**7,158**	**–**	**7,158**	–	28,042	28,042
Segmented foreign exchange loss	**205**	**254**	**(7)**	**452**	152	–	152
Segmented stock-based compensation	**799**	**–**	**–**	**799**	481	–	481
Segmented loss on disposal of office assets	**69**	**–**	**–**	**69**	–	24	24
Segmented loss on disposal of Kom Ombo concession	**–**	**1,702**		**1,702**	–	–	–
Segmented (gain) on acquisition	**–**	**–**	**–**	**–**	(1,729)	–	(1,729)
Segmented (gain) on disposal of inventory	**–**	**(411)**	**–**	**(411)**	–	–	–
Segment general and administrative expenses	**4,014**	**853**	**1,224**	**6,091**	3,853	810	4,663
Segment income/(loss) before income tax	**(5,484)**	**6,309**	**(1,230)**	**(404)**	(5,342)	(16,436)	(21,778)
Segmented finance expense	**856**	**–**	**–**	**856**	1,129	–	1,129
Segmented income/(loss) before income tax	**(6,340)**	**6,309**	**(1,230)**	**(1,260)**	(6,471)	(16,436)	(22,907)
Current income tax expense	**–**	**6,448**	**–**	**6,448**	–	5,201	5,201
Comprehensive loss for the year	**(6,340)**	**(139)**	**(1,230)**	**(7,708)**	(6,471)	(21,637)	(28,108)

The segment assets and liabilities at December 31, 2013 and 2012 are as follows:

	DECEMBER 31, 2013				DECEMBER 31, 2012		
	Canada	Egypt	UK	Total	Canada	Egypt	Total
Segment assets	**3,665**	**34,895**	**969**	**39,529**	6,133	45,873	52,006
Segment liabilities	**782**	**4,206**	**200**	**5,188**	3,883	6,873	10,756

The segment capital expenditures for the year ended December 31, 2013 and 2012 are as follows:

	Year ended December 31, 2013				Year ended December 31, 2012		
	Canada	Egypt	UK	Total	Canada	Egypt	Total
Capital additions	**–**	**7,959**	**325**	**8,284**	–	8,355	8,355

Note 21 Commitments:

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

The commitments relate to the South Ramadan concession and the work program (one well and facilities upgrade) is secured by the issuance of a letter of guarantee.

Currently the commitments as part of the concession agreements are as follows:

	2013	2012
Less than one year	**–**	–
Between one and five years	**2,933**	–
More than five years	**–**	–
	2,933	–

Operating leases

The company has office leases in Cairo and London. Non-cancellable operating leases are payable as follows:

	2013	2012
Less than one year	**–**	471
Between one and five years	**220**	1,787
More than five years	**–**	30
	220	2,288

Note 22 Contingencies:

There are no contingencies as at December 31, 2013.

Note 23 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 (UK) Ltd.	100%	U.K.	U.K.
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 (Nile) B.V. (Netherlands)	100%	Egypt	Netherlands
Sea Dragon Energy Holding Ltd. (BVI)	100%	British Virgin Islands	British Virgin Islands
NPC (Shukheir Marine) Ltd (BVI)	100%	Egypt	British Virgin Islands
NPC (South Ramadan) Ltd (BVI)	100%	Egypt	British Virgin Islands

For the years ended December 31, 2013 and 2012 (TABULAR AMOUNTS ARE IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE DATA)

Note 24 Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Salaries, incentives and short term benefits	**1,340**	1,034
Stock based compensation	**647**	401
Total	**1,987**	1,435

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 25 Subsequent Events

- During the first quarter of 2014 Sea Dragon Energy Inc. issued a press release announcing the well results of Al Amir S.E. 19, a development well in the NW Gemsa concession. The well was drilled to a depth of 10,000 feet and encountered both Shagar and Rahmi oil reservoirs. The well has been completed as an oil producer and has flowed on test light 42.3° API oil at a rate of 1,365 BOPD with 1.405 MMSCFD of associated gas. The well is currently shut-in for a build-up but will be placed on production as soon as the rig has moved off location.
- On February 12, 2014 Sea Dragon Energy Inc. paid a signature bonus of US$4 million related to the acquisition of the South Disouq concession.
- On March 19, 2014 the new South Disouq concession was ratified by the government. The work program (3D seismic and one well) has been supported by the issuance of a guarantee for US$9 million.
- Pursuant to Note 13 Stock Options, the Company cancelled 4,660,000 options, effective January 29, 2014, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, section 2.09.