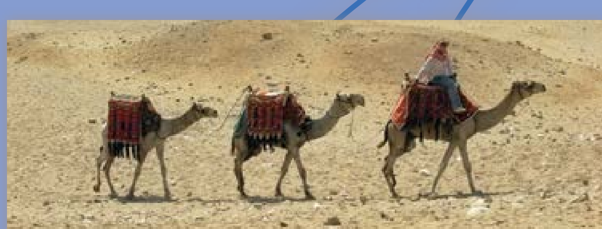
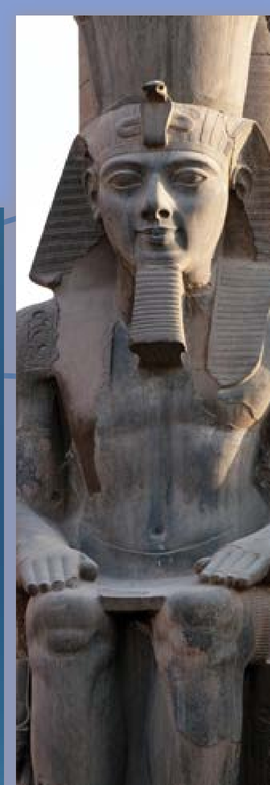
Financial Statements





Interim Consolidated Balance Sheets (Unaudited)

(thousands of United States dollars)	Note	AS AT JUNE 30, 2014	AS AT DECEMBER 31, 2013
Assets			
Cash and cash equivalents	5	**1,397**	4,287
Restricted cash	5	**6,000**	–
Trade and other receivables	6	**9,730**	7,130
Inventory		**2,455**	3,279
Deferred transaction costs	10	**372**	371
Current assets		**19,954**	15,067
Deferred transaction costs	10	**464**	648
Property, plant and equipment, net	8	**22,117**	23,062
Intangible exploration and evaluation assets	9	**4,584**	752
Non-current assets		**27,165**	24,462
Assets		**47,119**	39,529
Liabilities			
Bank indebtedness	10	**9,000**	–
Trade and other payables	11	**4,806**	5,188
Current liabilities		**13,806**	5,188
Equity			
Share capital	12	**119,574**	119,574
Contributed surplus		**8,945**	8,691
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(92,729)**	(91,447)
Equity		**33,313**	**34,341**
Equity and liabilities		**47,119**	**39,529**

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

Approved on behalf of the Board of Directors

Paul Welch
Chief Executive Officer

Olivier Serra
Chief Financial Officer

Interim Consolidated Statements of Comprehensive Income/(Loss) (Unaudited)

(thousands of United States dollars, except per share data)	Note	THREE MONTHS ENDED JUNE 30 2014	2013	SIX MONTHS ENDED JUNE 30 2014	2013
Revenue, net of royalties	*14*	**5,818**	7,498	**11,625**	14,429
Revenue		**5,818**	7,498	**11,625**	14,429
Direct operating expense		**1,523**	2,399	**3,380**	4,028
Exploration and evaluation expense	*9*	**47**	296	**104**	623
Unsuccessful well costs - exploration	*9*	**–**	–	**187**	–
Depletion, depreciation and amortization	*8*	**1,374**	1,422	**2,794**	2,879
Impairment expense		**–**	–	**–**	7,158
Foreign exchange loss		**182**	217	**316**	364
Stock based compensation	*13*	**199**	277	**254**	452
Loss on disposal of materials inventory		**–**	–	**143**	–
Loss on disposal of Kom Ombo concession	*7*	**–**	–	**291**	–
General and administrative expenses	*15*	**1,175**	1,718	**2,169**	2,841
Operating income/(loss)		**1,318**	1,169	**1,987**	(3,916)
Finance Expense		**206**	221	**514**	448
Income/(loss) before income taxes		**1,112**	948	**1,473**	(4,364)
Current income tax expense		**1,361**	1,610	**2,755**	3,118
Total comprehensive (loss) for period		**(249)**	(662)	**(1,282)**	(7,482)
Net (loss) per share - basic and diluted	*17*	**$ (0.00)**	**$ (0.00)**	**$ (0.00)**	**$ (0.02)**

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

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	SIX MONTHS ENDED JUNE 30 2014	2013
Share capital		
Balance, beginning of period	**119,574**	119,574
Balance, end of period	**119,574**	119,574
Contributed Surplus		
Balance, beginning of period	**8,691**	7,892
Share based payments	**254**	452
Balance, end of period	**8,945**	8,344
Accumulated Other Comprehensive Loss		
Balance, beginning of period	**(2,477)**	(2,477)
Balance, end of period	**(2,477)**	(2,477)
Accumulated Deficit		
Balance, beginning of period	**(91,447)**	(83,739)
Total comprehensive (loss) for the period	**(1,282)**	(7,482)
Balance, end of period	**(92,729)**	(91,221)
Total Equity	**33,313**	34,220

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

Interim Consolidated Statement of Cash Flows (Unaudited)

(thousands of United States dollars)	Note	THREE MONTHS ENDED JUNE 30 2014	THREE MONTHS ENDED JUNE 30 2013	SIX MONTHS ENDED JUNE 30 2014	SIX MONTHS ENDED JUNE 30 2013
Cash flows from/(used in) operating activities					
Net loss for the period		**(249)**	(662)	**(1,282)**	(7,482)
Adjustments for:					
Depletion, depreciation and amortization	*8*	**1,374**	1,422	**2,794**	2,879
Unsuccessful well costs – exploration	*9*	**–**	–	**187**	–
Impairment expense		**–**	–	**–**	7,158
Amortization of deferred transaction costs		**92**	93	**184**	185
Unrealized foreign exchange gain/(loss)		**182**	(181)	**324**	(282)
Stock–based compensation		**199**	277	**254**	452
Loss on disposal of materials inventory		**–**	–	**143**	–
Loss on disposal of Kom Ombo Concession	*7*	**–**	–	**291**	–
Operating cash flows before change in non-cash working capital		**1,598**	949	**2,895**	2,910
Change in non-cash working capital		**(1,776)**	(1,261)	**(4,138)**	(3,064)
Net cash (used in) operating activities		(178)	(312)	(1,243)	(154)
Cash flows (used in)/from investing activities:					
Property, plant and equipment expenditures	*8*	**(599)**	(1,635)	**(1,099)**	(3,454)
Exploration and evaluation expenditures	*9*	**(19)**	–	**(4,019)**	–
Cash from disposal of material inventory		**–**	–	**534**	–
Cash from disposal of Kom Ombo concession	*7*	**–**	–	**261**	–
Net cash (used in) investing activities		**(618)**	(1,635)	**(4,323)**	(3,454)
Cash flows from/(used in) financing activities:					
Proceeds from bank facility	*10*	**7,500**	–	**9,500**	2,000
Repayment of bank facility	*10*	**–**	(1,600)	**(500)**	(2,100)
Restricted cash/bank guarantees	*10*	**(6,000)**	–	**(6,000)**	–
Net cash from/(used in) financing activities		**1,500**	(1,600)	**3,000**	(100)
Change in cash and cash equivalents		**704**	(3,547)	**(2,566)**	(3,708)
Effect of foreign exchange on cash and cash equivalents		**(182)**	181	**(324)**	282
Cash and cash equivalents, beginning of period		**875**	5,598	**4,287**	5,658
Cash and cash equivalents, end of period		**1,397**	2,232	**1,397**	2,232
Supplemental information					
Interest paid		23	27	71	65

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

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 1900, 520 – 3rd Avenue SW, Centennial Place, East Tower, Calgary Alberta T2P 0R3. The consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2014 and 2013 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 interim financial statements reflect only the Company's proportionate interest in such activities. The Company's principle properties are located in the Arab Republic of Egypt.

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

Note 2 Basis of preparation and accounting policies:

Basis of preparation

These condensed interim consolidated financial statements for the three and six months ended June 30, 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim Consolidated Financial Statements of Sea Dragon Energy were approved by the Audit Committee on August 27, 2014.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The policies applied are based on IFRS issued and outstanding as of June 30, 2014.

Note 3 Determination of fair values:

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

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

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

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

Level 3 Fair value measurements are based on unobservable information.

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

Stock options:

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

Note 4 Financial risk management:

(a) Overview:

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

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

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

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

(b) Credit risk:

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

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Cash and cash equivalents	**1,397**	4,287
Trade and other receivables	**9,730**	7,130
Total	**11,127**	11,417

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Restricted cash	**6,000**	–

The Company deposited US$6.0 million of funds into a restricted bank account with HSBC Egypt in order to provide for US$6.0 million of guarantees in support of the work program for the South Disouq concession.

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.

The Company does not anticipate any default as it expects continued payment from customers. As such no provision for doubtful accounts has been recorded as at June 30, 2014 and December 31, 2013.

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

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Government of Egypt controlled corporations	**7,677**	4,629
Joint venture partners	**355**	579
Other	**1,698**	1,922
Total trade and other receivables	**9,730**	7,130

Receivables of US$7.7 million relating to oil and gas sales are due from EGPC and GPC (December 31, 2013: US$4.6 million), two Government of Egypt controlled corporations and are normally collected in two to four months following production. The Company expects to collect US$4.7 million of outstanding receivables; US$3.2 million for NW Gemsa and US$1.5 million for Shukheir Marine, in the normal course of operations, with US$3.0 million of Shukheir Marine receivables withheld as a rolling production guarantee for the work program of the South Disouq concession.

The Shukheir Marine trade receivables of US$3.0 million withheld under the production guarantee will not be collectable until such time as the work program is satisfied. Refer to Note 6 for further details.

The other receivables of US$1.7 million consist of US$0.8 million accrued gas and liquids revenue yet to be invoiced, US$0.3 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession and US$0.3 million related to prepayments.

As at June 30, 2014 and December 31, 2013, the Company's trade and other receivables is aged as follows:

	JUNE 30, 2014	DECEMBER 31, 2013
Current (less than 90 days)	**7,190**	6,848
Past due (more than 90 days)	**2,540**	282
Total	**9,730**	7,130

The balances which are past due are not considered impaired.

Trade and other receivables past due have increased by US$2.3 million when compared to December 31, 2013. This increase is as a result of the Shukheir Marine rolling pledged receivables and represents the November 2013 to February 2014 oil sales invoices totaling US$2.2 million.

Subsequent to June 30, 2014 the Company collected US$1.75 million from government of Egypt controlled corporations, thereby reducing the current (less than 90 days) balance by US$1.0 million and past due by US$0.75 million.

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 June 30, 2014, 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$. Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the EGP and US$ and GBP and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in both EGP and US$. 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, 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	GBP	OTHER
As at June 30, 2014	*US$ EQUIVALENT*				
Cash and cash equivalents	1,397	400	750	120	127
Restricted cash	6,000	6,000	–	–	–
Trade and other receivables	9,730	9,408	–	238	84
Bank indebtedness	(9,000)	(9,000)	–	–	–
Trade and other payables	(4,806)	(2,674)	(1,826)	(154)	(152)
Balance sheet exposure	3,321	4,134	(1,076)	204	59

[1] *denotes Financial Statements*

NOTES

The average exchange rates during the three months ended June 30, 2014 were 1 US$ equals:

AVERAGE: 1 April 2014 to 30 June 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0908	0.5942	0.7290	7.0476

AVERAGE: 1 April 2013 to 30 June 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0231	0.6511	0.7658	6.9056

The average exchange rates during the six months ended June 30, 2014 were 1 US$ equals:

AVERAGE: 1 January 2014 to 30 June 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0963	0.5992	0.7294	6.9898

AVERAGE: 1 January 2013 to 30 June 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0155	0.6476	0.7616	6.7739

The period end exchange rates as at June 30, 2014 were 1 US$ equals:

PERIOD END: June 30, 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Jun 30, 2014	1.0661	0.5866	0.7325	7.1311

PERIOD END: June 30, 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Jun 30, 2013	1.0515	0.6572	0.7685	6.9774

(f) Other price risk:

Other price risk is the risk that the fair value of 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 macro-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 June 30, 2014 the Company did not have any outstanding derivatives in place.

(g) Capital management:

The Company defines and computes its capital as follows:

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Equity	**33,313**	34,341
Working capital [1]	**(6,148)**	(9,879)
Total capital	**27,165**	24,462

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

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

Note 5 Cash and cash equivalents:

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Cash at bank	**1,397**	4,287
Cash and cash equivalents	**1,397**	4,287

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

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Restricted cash	**6,000**	–

The Company deposited US$6.0 million of funds into a restricted bank account with HSBC Egypt in order to provide for US$6.0 million of bank guarantees in support of the work program for the South Disouq concession.

Note 6 Trade and other receivables:

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Current		
Trade receivables	**7,677**	4,630
Other receivables	**2,053**	2,500
	9,730	7,130

Current trade and other receivables are unsecured and non-interest bearing. The normal collection pattern for trade receivables is 60 to 120 days.

Trade receivables include US$4.5 million for Shukheir Marine and US$3.2 million for NW Gemsa.

Trade receivables of US$ 3.0 million, related to Shukheir Marine, have been withheld as a rolling guarantee for the work program of the South Disouq concession

As the cumulative value of receivables from Shukheir Marine has now exceeded the withheld amount the receivables from this point become collectable on a first in first out basis ("FIFO"). The receivables are currently comprised of oil invoices for the period November 2013 to June 2014 and using the FIFO basis the November and December 2013 and partial January 2014 invoices become collectable; amounting to US$1.5 million. The FIFO basis also means that trade receivables from Shukheir Marine remain current and equate to approximately eight months of oil invoices.

The withheld Shukheir Marine receivables of US$3.0 million will not be collected in cash until the Group satisfies its obligations under the work program. The mechanism for the operation of the guarantee is prescribed in the South Disouq concession agreement. The guarantee will reduce on a quarterly basis once the Company starts to incur capital expenditure under the work program.

The other receivables of US$2.1 million include: US$0.8 million accrued gas and liquids revenue yet to be invoiced, US$0.3 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession, US$0.3 million related to prepayments, US$0.4 million for the joint venture current accounts and US$0.3million for other.

The joint venture current accounts of US$0.4 million, recorded within other receivables, relate to the NW Gemsa and Shukheir Marine concessions. The Company records its net share of the working capital for the NW Gemsa concession; this represents US$0.3 million and is comprised of inventory and advances – deposits.

Note 7 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 were included in the consolidated financial statements for the Company as at December 31, 2013.

Since the issuance of the 2013 Annual Report additional historic costs have been reported by the operator of the Kom Ombo concession, which have a retrospective impact on i) the working capital and interim period adjustment and ii) the loss on sale. The final value of the additional costs is yet to be determined however an additional loss was recorded, in Q1 2014, based on costs confirmed to date.

Note 8 Property, plant and equipment:

	OIL INTERESTS	ASSETS HELD FOR SALE	FURNITURE AND FIXTURES	TOTAL
Cost:				
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
Additions	1,839	–	10	1,849
Balance at June 30, 2014	34,527	–	500	35,027
Accumulated depletion and depreciation:				
Balance at December 31, 2012	(6,304)	(28,232)	(229)	(34,765)
Depletion and depreciation for the period	(4,223)	(413)	(98)	(4,734)
Intergroup transfer	609	(609)	–	–
Impairment for the period	–	(7,158)	–	(7,158)
Disposals	–	36,412	129	36,541
Balance at December 31, 2013	(9,918)	–	(198)	(10,116)
Depletion and depreciation for the period	(2,713)	–	(81)	(2,794)
Balance at June 30, 2014	(12,631)	–	(279)	(12,910)
NBV Property, plant and equipment as at December 31, 2013	22,770	–	292	23,062
NBV Property, plant and equipment as at June 30, 2014	21,896	–	221	22,117

During the period ended June 30, 2014 the Company had PP&E additions of US$1.8 million primarily related to three wells, AASE-19 and AASE-19 sidetrack (US$0.4 million), AASE-21 (US$0.4 million) and AASE-22 (US$0.3 million), in the NW Gemsa concession. These amounts are also included within accrued expenditures.

At June 30, 2014, for the purposes of the depletion calculation, US$0.4 million (June 30, 2013– US$4.3 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Note 9 Intangible exploration and evaluation assets:

Cost:	
Balance at December 31, 2012	–
Additions	752
Balance at December 31, 2013	**752**
Additions	4,019
Exploration and evaluation expense	(187)
Balance at June 30, 2014	**4,584**

During the period ended June 30, 2014, the Company incurred US$4.0 million of intangible capital expenditure related to the signature bonus for the South Disouq concession.

The Company expensed the drilling costs for the Shehab-2 exploration well, in the NW Gemsa concession, as the well failed to flow and was abandoned.

During the period ended June 30, 2014, the company incurred US$0.1 million (June 30, 2013 - US$0.6 million) in pre-license costs which were expensed.

Note 10 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), priced at LIBOR plus 3%.

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 June 30, 2014.

As at June 30, 2014 the Company has US$12.3 million in amounts available for borrowing under the Facility, consisting of US$9.3 million under Tranche A and US$3.0 million under Tranche B. As at June 30, 2014 the Company has utilized US$9.0 million under the Facility, consisting of i) US$8.5 million cash drawdown under Tranche A and ii) US$0.5 million cash drawdown under Tranche B as per the table shown below.

Cash drawdown classified as current as at end of the quarter:

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Tranche A	**8,500**	–
Tranche B	**500**	–
Total	**9,000**	–

Subsequent to the end of the quarter, the Company has increased its utilization of the Facility to a total of US$9.6 million, against US$10.3 million in amounts available under the facility.

Note 10 Loans and borrowings (continued):

The Company deposited US$6.0 million into a HSBC restricted bank account in Egypt in order to provide for US$6.0 million guarantees in relation to the work program for the South Disouq concession. This amount is presented as restricted cash. As a result, the Company satisfied its obligation to post US$9.0 million in guarantees towards the work program for the South Disouq concession, consisting of US$3.0 million of Shukheir Marine account receivables withholdings, and US$6.0 million in bank guarantees and restricted cash.

As at June 30, 2014 there is US$0.8 million of deferred transaction costs. The deferred transaction costs representing closing finance costs being amortized straight line over the term of the loan facility of five years, of which US$0.4 million will be amortized within the next 12 months and US$0.4 million over the remainder of the term. For the period ended June 30, 2014 there has been US$91,572 of transaction costs amortized which is included in the finance expenses.

Note 11 Trade and other payables:

	CARRYING AMOUNT	
	JUNE 30, 2014	DECEMBER 31, 2013
Current		
Trade Payables	**1,862**	2,787
Accruals	**2,590**	2,175
Other payables	**354**	226
	4,806	5,188

Trade payables are non-interest bearing and are normally settled on 30 day terms or where this differs in accordance with supplier payment terms or agreed payment plan.

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

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

Note 12 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, 2013 and June 30, 2014	**376,459**	**119,574**

Note 13 Stock Options:

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

Effective January 29, 2014 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.

Pursuant to the Board Resolution effective June 20, 2014 the Company granted Options to acquire 13,700,000 common shares at an exercise price of $0.075 per Common Share.

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, 2013	**35,610**	**0.19**
Cancelled during the year	(15,350)	0.31
Re-issued during the year	4,400	0.13
Outstanding December 31, 2013	**24,660**	**0.11**
Outstanding January 1, 2014	**24,660**	**0.11**
Cancelled during the period	(4,660)	**0.13**
Expired during the period	(400)	**0.30**
Issued during the period	13,700	**0.08**
Outstanding June 30, 2014	**33,300**	**0.10**
Exercisable June 30, 2014	**10,217**	**0.11**

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
$0.075 to $0.13	33,300,000	3.9 years	10,216,647	3.3 years

Note 14 Revenue:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	**2014**	2013
Oil revenue	**13,331**	15,247	**27,037**	29,544
Royalties	**(7,643)**	(7,895)	**(15,679)**	(15,261)
Oil revenue, net of royalties	**5,688**	7,352	**11,358**	14,283
Gas revenue	**83**	96	**178**	96
Royalties	**(36)**	(40)	**(76)**	(40)
Gas revenue, net of royalties	**47**	56	**102**	56
NGL revenue	**142**	154	**283**	154
Royalties	**(59)**	(64)	**(118)**	(64)
NGL revenue, net of royalties	**83**	90	**165**	90
Total net revenue	**5,818**	7,498	**11,625**	14,429

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

Note 15 General and Administration expenses:

		THREE MONTHS ENDED DECEMBER 31		SIX MONTHS ENDED JUNE 30	
$000's	PRIOR QUARTER	**2014**	2013	**2014**	2013
Wages and employee costs	538	**541**	739	**1,079**	1,290
Consultants	81	**144**	3	**225**	80
Legal fees	106	**132**	110	**238**	211
Audit, tax and accounting services	34	**35**	95	**69**	127
Travel	38	**77**	108	**115**	228
Office expense	191	**240**	291	**431**	528
Bank charges	6	**6**	7	**12**	12
Restructuring costs	–	**–**	365	**–**	365
Total	994	**1,175**	1,718	**2,169**	2,841

General and administrative ("G&A") costs for the three and six months ended June 30, 2014 were US$1.1 million and US$2.2 million respectively compared to US$1.7 million and US$2.8 million for the comparative periods in the prior year. This represents a decrease of US$0.5 million and US$0.7 million compared to the prior year. The decrease is due to lower wages and employees costs, audit and tax, travel and office rent costs, partially offset by higher consultants and legal fees.

Note 16 Income tax:

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

Note 17 Loss per share:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	**2014**	2013
Net loss for the period	**(249)**	(662)	**(1,282)**	(7,482)
Weighted average number of shares *(000's)*				
Basic and diluted	**376,459**	376,459	**376,459**	376,459
Per share amount – Basic and diluted	**$ (0.00)**	$ (0.00)	**$ (0.00)**	$ (0.02)

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 18 Segmental Reporting:

Functional 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 functional perspective. The corporate function includes the Company's head office in the UK and residual functions in Canada related to the Board of Directors and TSX-V listing requirements. The operations function consists of the Company's operations in Egypt. Set out below is segmented information on a functional basis.

	THREE MONTHS ENDED JUNE 30, 2014			THREE MONTHS ENDED JUNE 30, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Revenue	**–**	**5,818**	**5,818**	–	7,498	7,498
Direct operating expenses	**–**	**1,523**	**1,523**	–	2,399	2,399
Exploration and evaluation expense	**23**	**24**	**47**	296	–	296
Depletion, depreciation and amortization	**37**	**1,337**	**1,374**	8	1,414	1,422
Foreign exchange loss	**182**	**–**	**182**	217	–	217
Stock based compensation	**199**	**–**	**199**	277	–	277
General and administrative expenses	**948**	**227**	**1,175**	1,432	286	1,718
Operating Income/(loss)	**(1,389)**	**2,707**	**1,318**	(2,230)	3,399	1,169
Finance expense	**206**	**–**	**206**	221	–	221
Income/(loss) before income tax	**(1,595)**	**2,707**	**1,112**	(2,451)	3,399	948
Current income tax expense	**–**	**1,361**	**1,361**	–	1,610	1,610
Comprehensive income/(loss) for the period	**(1,595)**	**1,346**	**(249)**	(2,451)	1,789	(662)

	SIX MONTHS ENDED JUNE 30, 2014			SIX MONTHS ENDED JUNE 30, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Revenue	**–**	**11,625**	**11,625**	–	14,429	14,429
Direct operating expenses	**–**	**3,380**	**3,380**	–	4,028	4,028
Exploration and evaluation expense	**27**	**77**	**104**	623	–	623
Unsuccessful well costs - exploration	**–**	**187**	**187**	–	–	–
Depletion, depreciation and amortization	**74**	**2,720**	**2,794**	18	2,861	2,879
Impairment expense	**–**	**–**	**–**	–	7,158	7,158
Foreign exchange loss	**316**	**–**	**316**	364	–	364
Stock based compensation	**254**	**–**	**254**	452	–	452
Loss on disposal of Kom Ombo concession	**–**	**291**	**291**	–	–	–
Loss on disposal of inventory	**–**	**143**	**143**	–	–	–
General and administrative expenses	**1,774**	**395**	**2,169**	2,356	485	2,841
Operating Income/(loss)	**(2,445)**	**4,432**	**1,987**	(3,813)	(103)	(3,916)
Finance expense	**514**	**–**	**514**	448	–	448
Income/(loss) before income tax	**(2,959)**	**4,432**	**1,473**	(4,261)	(103)	(4,364)
Current income tax expense	**–**	**2,755**	**2,755**	–	3,118	3,118
Comprehensive income/(loss) for the period	**(2,959)**	**1,677**	**(1,282)**	(4,261)	(3,221)	(7,482)

The segment assets and liabilities as at June 30, 2014 and December 31, 2013 are as follows:

	JUNE 30, 2014			DECEMBER 31, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Assets	**8,102**	**39,017**	**47,119**	4,634	34,895	39,529
Liabilities	**9,535**	**4,271**	**13,806**	982	4,206	5,188

The segment capital expenditures for the three and six months ended June 30, 2014 and 2013 are as follows:

	THREE MONTHS ENDED JUNE 30, 2014			THREE MONTHS ENDED JUNE 30, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Capital additions	**10**	**1,005**	**1,015**	–	1,635	1,635

	SIX MONTHS ENDED JUNE 30, 2014			SIX MONTHS ENDED JUNE 30, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Capital additions	**10**	**5,858**	**5,868**	–	3,454	3,454

Note 19 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 interim consolidated financial statements.

The commitments relate to the South Ramadan (US$2.9 million) and South Disouq (US$9.0 million) concessions work programs (one well and facilities upgrade and 3D seismic and one well respectively). The work program for South Disouq is secured by the issuance of guarantees.

The recent announcement of the farm out agreement for the South Disouq concession will reduce the commitment value once ratified by the Egyptian authorities and the value of the guarantees issued to secure the work program. Upon ratification the commitment value for the Company will be US$3.3 million. Commitments as part of the concession agreements will then be US$6.2 million as opposed to US$11.9 million.

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

	JUNE 30, 2014	DECEMBER 31, 2013
Less than one year	**–**	–
Between one and five years	**11,933**	2,933
More than five years	**–**	–
	11,993	2,933

Note 20 Subsequent Events:

On August 14, 2014 the Company entered into a farm out agreement for the South Disouq concession. The terms of the agreement provide the Company with:

(i) the payment of US$1.9 million for past costs related to the signature bonus;

(ii) a carry for its cost of the 1st phase commitment well up to a cap; and

(iii) full replacement of the US$6.0 million work program guarantees by the farminee.

The farm down agreement is for a 45% interest in the concession. Ratification by the regulatory authorities in Egypt is required before the agreement becomes effective.