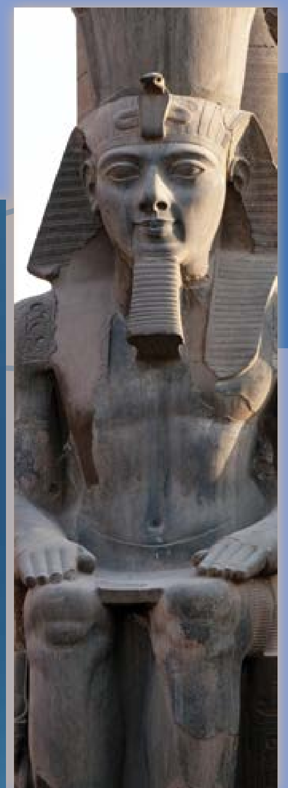
Financial Statements



Independent Auditor's REPORT

30 March 2015

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, 2014 and December 31, 2013, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

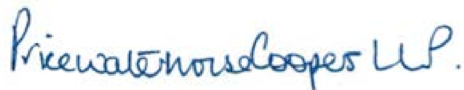
Our responsibility is to express an opinion on these consolidated financial statements based on our audit.We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 in our audit 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, 2014, and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom

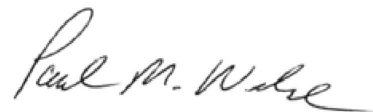
Consolidated Balance Sheet

For the years ended December 31, 2014 and 2013

(thousands of United States dollars)	Note	As at December 31, 2014	As at December 31, 2013
Assets			
Cash and cash equivalents	*6*	**2,966**	4,287
Restricted cash	*6*	**6,000**	–
Trade and other receivables	*7*	**8,678**	7,130
Inventory	*8*	**1,493**	3,279
Deferred transaction costs	*12*	**373**	371
Current assets		**19,510**	15,067
Deferred transaction costs	*12*	**280**	648
Property, plant and equipment, net	*10*	**17,418**	23,062
Intangible exploration and evaluation assets	*11*	**3,075**	752
Non-current assets		**20,773**	24,462
Assets		**40,283**	39,529
Liabilities			
Bank indebtedness	*12*	**10,072**	–
Trade and other payables	*13*	**4,383**	5,188
Current and total liabilities		**14,455**	5,188
Equity			
Share capital	*14*	**119,574**	119,574
Contributed surplus		**9,138**	8,691
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(100,407)**	(91,447)
Equity		**25,828**	34,341
Equity and liabilities		**40,283**	39,529

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, 2014 and 2013

(thousands of United States dollars, except per share data)	Note	YEAR ENDED DECEMBER 31 2014	2013
Revenue, net of royalties	*16*	**19,919**	29,420
Revenue		**19,919**	29,420
Direct operating expense		**7,991**	8,562
Exploration and evaluation expense	*11*	**218**	668
Unsuccessful well costs - exploration	*11*	**177**	–
Depletion, depreciation and amortization	*10*	**4,639**	4,734
Impairment expense	*10*	**2,820**	7,158
Impairment of inventory	*8*	**1,235**	–
Foreign exchange loss		**453**	452
Stock based compensation		**447**	799
Loss on disposal of materials inventory		**111**	69
Loss on disposal of Kom Ombo concession	*9*	**351**	1,291
General and administrative expenses	*17*	**4,685**	6,091
Operating (loss)		**(3,208)**	(404)
Finance expense	*18*	**1,045**	856
(Loss) before income taxes		**(4,253)**	(1,260)
Current income tax expense	*19*	**4,707**	6,448
Total comprehensive (loss) for the year		**(8,960)**	(7,708)
Net (loss) per share – basic and diluted	*20*	**$ (0.02)**	$ (0.02)

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

Consolidated Statement of Changes in Equity

For the years ended December 31, 2014 and 2013

(thousands of United States dollars)	Note	YEAR ENDED DECEMBER 31 2014	2013
Share Capital			
Balance, beginning of year		**119,574**	119,574
Balance, end of year		**119,574**	119,574
Contributed Surplus			
Balance, beginning of year		**8,691**	7,892
Share based payments		**447**	799
Balance, end of year		**9,138**	8,691
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		**(91,447)**	(83,739)
Total comprehensive (loss) for the year		**(8,960)**	(7,708)
Balance, end of year		**(100,407)**	(91,447)
Total Equity		**25,828**	34,341

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

Consolidated Statement of Cash Flows

For the years ended December 31, 2014 and 2013

(thousands of United States dollars)	Note	YEAR ENDED DECEMBER 31 2014	2013
Cash flows from/(used in) operating activities			
Net (loss) for the year		**(8,960)**	(7,708)
Adjustments for:			
Depletion, depreciation and amortization	10	**4,639**	4,734
Unsuccessful well costs – exploration	11	**177**	–
Impairment expense	10	**2,820**	7,158
Impairment of inventory	8	**1,235**	–
Amortization of deferred transaction costs	12	**366**	371
Unrealized foreign exchange gain/(loss)		**371**	317
Stock-based compensation		**447**	799
Loss on disposal of materials inventory		**111**	–
Loss on disposal of office assets		**–**	69
Loss/(gain) on disposal of Kom Ombo Concession	9	**351**	(329)
Operating cash flows before change in non-cash working capital		**1,557**	5,411
Change in non-cash working capital		**(1,053)**	(3,316)
Net cash from operating activities		**504**	2,095
Cash flows (used in) investing activities:			
Property, plant and equipment expenditures	10	**(2,624)**	(6,385)
Exploration and evaluation expenditures	11	**(4,111)**	(752)
Cash from disposal of material inventory		**755**	411
Cash from disposal of office assets		**–**	11
Cash from disposal of Kom Ombo concession		**453**	6,566
Net cash (used in) investing activities		**(5,527)**	(149)
Cash flows from/(used in) financing activities:			
Proceeds from bank facility	12	**11,932**	6,360
Repayment of bank facility	12	**(1,859)**	(9,360)
Restricted cash/bank guarantees	12	**(6,000)**	–
Net cash from/(used in) financing activities		**4,073**	(3,000)
Change in cash and cash equivalents		**(950)**	(1,054)
Effect of foreign exchange on cash and cash equivalents		**(371)**	(317)
Cash and cash equivalents, beginning of year		**4,287**	5,658
Cash and cash equivalents, end of year		**2,966**	4,287
Supplemental information			
Interest paid	18	**679**	**102**

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, 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 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, 2014. The policies applied are based on IFRS issued and outstanding as of March 31, 2015.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(e) Going concern

The Directors have reviewed the Company's forecast cash flows for the next twelve months and for 2016. Capital and operating costs are based on 2015 approved budgets and latest forecasts and current development plans for 2016. The Directors have made enquiries into and considered the Egyptian business environment, future expectations regarding commodity price risk and, in particular, oil price risk given the recent and substantial fall in quoted Brent and Crude oil WTI prices.

Having considered these sensitivities and potential outcomes relating to:

(i) the country and commodity price risks;

(ii) the Company's ability to change the timing and scale of discretionary capital expenditure;

(iii) the Company's ability to manage operating costs;

(iv) The company's ability to manage general and administrative costs.

The Directors consider that in a lower cost environment the Company has sufficient resources, at its disposal, to continue for the foreseeable future. The foreseeable future is defined as not being less than twelve months from the date of publication of the 2014 Annual Report.

The going concern basis therefore continues to be adopted.

With reference to Note 12 Loans and Borrowings, the Company's secured credit facility (Facility) with HSBC and BNP Paribas has entered the amortization phase and is due to be fully repaid by September 23, 2016. The Company forecast cash flow shows that this obligation will be satisfied; however a further or sustained fall in the oil price and/or an inability on the part of the Company to manage operating and general and administrative costs in the manner envisaged could result in the need for additional financing in 2016 in order to settle the obligation under the Facility.

Note 3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Jointly controlled assets

The Company is engaged in oil and gas exploration, development and production through unincorporated joint arrangements ("Joint Operations"). Where joint control exists 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 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 cost 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 operations as incurred.

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

On a quarterly basis, a review of any areas classified and accounted for as E&E is performed to determine whether enough information exists to make a determination of the technical feasibility and commercial viability of the area. Where appropriate, review may indicate thast 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, as a group, make strategic decisions regarding the Company.

(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 liability in the current country of operation that would require the company to recognize a decommissioning liability.

(k) Revenue

Revenue from the sale of oil, 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 Statement 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) Amendment to Other Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the amendment to existing standards and interpretations effective January 2014. The following amended standards have been adopted by the Company for the financial year beginning on or after January 1, 2014. There has been no material change to the Company's financial statements as a result of the application of these amended standards.

Amendment to IAS 32 – Financial Instruments: Presentation on offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

Amendment to IAS 36 – Impairment of Assets: on the recoverable amount disclosures for non-financial assets

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39 – Financial Instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting.

The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company's financial statements as a result.

IFRIC 21 - Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Company is not currently subjected to significant levies so the impact on the Company is not material.

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

Other standards, amendments and interpretations which are effective for the financial year beginning January 1, 2014 are not material to the Company.

(o) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, 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 Company, 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. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness

by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Note 4 Determination of fair values

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

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

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

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

Level 3 Fair Value Measurements are based on unobservable information.

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

(a) Stock options

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

Note 5 Financial risk management

(a) Overview:

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

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated 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, 2014	December 31, 2013
Cash and cash equivalents	**2,966**	4,287
Trade and other receivables	**8,678**	7,130
Total	**11,644**	11,417

	CARRYING AMOUNT	
	December 31, 2014	December 31, 2013
Restricted cash	**6,000**	–

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 a provision for doubtful accounts has not been recorded as at December 31, 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	
	December 31, 2014	December 31, 2013
Government of Egypt controlled corporations	**5,536**	4,629
Joint venture partners	**2,592**	579
Other	**550**	1,922
Total trade and other receivables	**8,678**	7,130

Receivables relating to oil sales are due from EGPC and GPC (General Petroleum Company), two Government of Egypt controlled corporations and are normally collected in two to four months following production.

Receivables of US$5.5 million relating to oil sales are due from EGPC and GPC (December 31, 2013: US$4.6 million). The Company expects to collect US$2.5 million of outstanding receivables, US$2.2 million for NW Gemsa and US$0.3 million for Shukeir Marine, in the normal course of operations, with US$3.0 million of Shukheir Marine receivables withheld as a rolling 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 collectible until such time as the work program is satisfied.

The other receivables of US$3.1 million consist of joint operations partner current accounts of US$2.6 million, US$0.2 million accrued gas and liquids revenue, net of excess cost, yet to be invoiced, US$0.2 million related to prepayments and US$0.1 million for GST/VAT. Please see Note 7 Trade and other receivables for further details.

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

	2014	2013
Current (less than 90 days)	**6,422**	6,848
Past due (more than 90 days)	**2,256**	282
Total	**8,678**	7,130

The balances which are past due are not considered impaired.

Subsequent to December 31, 2014 the Company collected US$1.4 million from government of Egypt controlled corporations.

Cash and cash equivalents:

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

(c) Liquidity risk

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

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

As at December 31, 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$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the Egyptian Pound (EGP) and the US$ and Sterling (GBP) and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in EGP and US$. The Company has been so far able to utilize the EGP locally to fund the local office general and administrative expenses as well as cash calls on both the capital expenditures and operating expenditures therefore reducing the Company's exposure to foreign exchange risk during the period. The Company will continue to work with local partners to maintain this foreign exchange risk management initiative. However local management in the Company's Cairo office have held constructive discussions with EGPC and GPC to seek future oil revenues for 2015 be settled in US$.

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

As at December 31, 2014	Total per FS [1]	US$	EGP	EUR	CAD	GBP
				US$ Equivalent		
Cash and cash equivalents	2,966	1,197	1,603	45	20	101
Restricted Cash	6,000	6,000	–	–	–	–
Trade and other receivables	8,678	8,432	–	10	35	201
Bank indebtedness	(10,072)	(10,072)	–	–	–	–
Trade and other payables	(4,383)	(2,218)	(1,859)	(19)	(69)	(218)
Balance sheet exposure	**3,189**	**3,339**	**(256)**	**36**	**(14)**	**84**

(1) denotes Financial Statements

The average exchange rates during the year ended December 31, 2014 were 1 US$ equals:

AVERAGE: 1 JANUARY 2014 TO 31 DECEMBER 2014	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.1041	0.6072	0.7536	7.0545

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

The exchange rates at December 31, 2014 were 1 US$ equals:

PERIOD END: 31 DECEMBER 2014	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Dec 31, 2014	1.1627	0.6437	0.8226	7.1296

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

(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 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, 2014 the Company did not have any outstanding derivatives in place.

(g) Capital management

The Company defines and computes its capital as follows:

	December 31, 2014	December 31, 2013
Equity	**25,828**	34,341
Working capital [1]	**(5,055)**	(9,879)
Total capital	**20,773**	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 6 Cash and cash equivalents and restricted cash

	December 31, 2014	December 31, 2013
Bank balances	**2,966**	4,287
Cash and cash equivalents	**2,966**	4,287

	December 31, 2014	December 31, 2013
Restricted cash	**6,000**	–

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

The Company has previously deposited US$6.0 million, from a debt draw, 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. For additional details please refer to Note 12 *Loans and Borrowings*.

Note 7 Trade and other receivables

	December 31, 2014	December 31, 2013
Current		
Trade receivables	**5,536**	4,630
Other receivables	**3,142**	2,500
	8,678	7,130

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$3.1 million (December 31, 2013 US$2.2 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.

Trade receivables include US$3.3 million for Shukheir Marine and US$2.2 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.

The Shukheir Marine receivables are currently comprised of oil invoices for the period May to December 2014; which corresponds to approximately eight months of oil invoices. Under the rolling guarantee US$0.3 million is collectible and this represents a partial month for the May 2014 invoice.

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$3.1 million consist of joint operations partner current accounts of US$2.6 million, US$0.2 million accrued gas and liquids revenue, net of excess cost, yet to be invoiced, US$0.2 million related to prepayments and US$0.1 million for GST/VAT.

The joint operations partner current accounts of US$2.6 million comprise:

i) US$0.3million for the Shukheir Marine concession;

ii) US$0.3million for the NW Gemsa concession;

ii) US$2.0million for the South Disouq concession. The partner current account pertains to the farminee of the concession and was for joint operation billings to recover past costs in line with the Farm In Agreement. The farminee was billed for its share of the signature bonus (US$1.9 million) and, transfer costs (US$0.2 million). A further US$0.1 million remains to be billed for G&G costs. The Company received US$0.2 million cash on December 19, 2014. The remaining US$1.9 million was received on January 29, 2015. Please see Note 26 'Subsequent Events' for further details.

Note 8 Inventory

A full review of the Company's materials inventory was undertaken during 2014; as a result of which a revaluation adjustment of US$1.2 million has been recorded in the consolidated statement of comprehensive loss. The revaluation adjustment ensures that inventory is shown at lower of cost and net realizable value.

Note 9 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 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 financial statements for the Company as at December 31, 2013.

Since the issuance of the 2013 Annual Report additional previously unbilled historic operating 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. These costs were included in the November 2013 joint operating statement issued by the operator; which was after the completion of the sale by Sea Dragon. The completion of the sale took place on November 1, 2013.

The additional historic costs have now been resolved and a settlement agreement reached which resulted in an additional loss on disposal for Kom Ombo of US$0.4 million during 2014.

Note 10 Property, plant and equipment

	Oil interests	Asssets 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	1,786	–	29	1,815
Balance at December 31, 2014	**34,474**	**–**	**519**	**34,993**
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	(4,480)	–	(159)	(4,639)
Impairment for the period	(2,820)	–	–	(2,820)
Balance at December 31, 2014	**(17,218)**	**–**	**(357)**	**(17,575)**
NBV Property, plant and equipment as at December 31, 2013	**22,770**	**–**	**292**	**23,062**
NBV Property, plant and equipment as at December 31, 2014	**17,256**	**–**	**162**	**17,418**

During the year ended December 31, 2014, the company capitalized US$0.4 million (December 31, 2013 - US$2.3 million) of allocated indirect expenditure related to development and production activities in Egypt. This related to the North West Gemsa concession and was contained in the monthly billings received from the Operator.

In calculating depreciation for 2014 future development costs of US$0.6 million (December 31, 2013 - US$2.0 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.

At the reporting date an impairment test was triggered due to falling crude oil prices during the fourth quarter of 2014. The impairment test was carried out on the NW Gemsa fields only as Shukheir Marine was fully depleted at the Balance Sheet date. The impairment test was carried out in accordance with the accounting policy note stated in Note 3. The recoverable amounts of the fields have been determined based on value-in-use calculations. These calculations require the use of estimates. The present values of future cash flows was computed by applying forecast prices of oil and gas reserves to estimated future production of proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 15%. The discount rate used reflects the specific risks relating to the underlying cash generating unit ('CGU').

Based on this calculation there is an impairment recorded for the NW Gemsa fields of US$2.8 million.

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

2015	2016	2017	2018	2019	2020
$62.00	$69.00	$72.50	$74.50	$80.00	$90.00

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the impairment of the NW Gemsa fields would be US$4.4million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the impairment of the NW Gemsa fields would be US$0.6 million.

Note 11 Intangible exploration and evaluation assets

Cost:	
Balance at December 31, 2012	**–**
Additions	752
Balance at December 31, 2013	**752**
Additions	2,500
Exploration and evaluation expense	(177)
Balance at December 31, 2014	**3,075**

Intangible exploration and evaluation ("E&E") additions for 2014 consist of the costs associated with the award, in the 2012 bid round, of the South Disouq concession (US$2.5 million).

The E&E additions of US$2.5 million were incurred by the South Disouq concession and related to i) the signature bonus of US$4.0 million, ii) G&G technical work of US$0.1 million and iii) US$0.6 million of transfer costs associated with the assignment and farm out of the concession. This was offset by the joint operation billings sent to the farminee of South Disouq for US$2.1 million and can be found under trade and other receivables (see Note 7). Further details can also be found under Subsequent Events.

The Company expensed exploration costs associated with the Shehab-2 exploration well in the NW Gemsa concession (US$177k) as the well failed to flow and was abandoned.

During the year ended December 31, 2014, the Company incurred US$0.2 million (US0.7 million – 2013) in pre-license costs which were expensed. The pre-license costs consist of US$0.2 million in business development costs.

Note 12 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 terminates on September 23, 2016.

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 year ended December 31, 2014.

As at December 31, 2014 the Company has US$10.1 million in amounts drawn from the Facility; consisting of US$7.1 million under Tranche A and US$3.0 million under Tranche B. As at December 31, 2014 the Facility is fully utilized; with no remaining availability.

Cash drawdown is classified as current as at the year-end as follows:

	December 30, 2014	December 31, 2013
Tranche A	**7,062**	–
Tranche B	**3,010**	–
Total	**10,072**	–

The Facility has entered the amortization phase and amounts available under the Facility have started to decline as per the semi-annual borrowing base redetermination calculations. The Company repaid US$1.2 million, under Tranche A, at the end of December 2014 and will continue to set cash aside in order to comply with its amortization schedule in accordance with the terms of the Facility.

The company deposited US$6.0 million, of proceeds drawn under the Facility, 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 obligations 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 receivables withholdings and US$6.0 million in bank guarantees and restricted cash.

The Company completed the farm out of the South Disouq concession with the ratification of the Deed of Assignment on January 12, 2015. The company farmed out a 45% interest in the concession and under the terms of the Farm Out Agreement the farminee is to replace US$6.0 million in work program guarantees originally posted by the Company. See Note 26 for further details.

On confirmation, by the Egyptian authorities, that the guarantees have been successfully replaced the Company will cancel US$6.0 million of bank guarantees and the funds held by HSBC as restricted cash will be returned to the Company. These funds, in turn, will be used to repay US$6.0 million of Tranche A debt under the Facility.

As at December 31, 2014 there is US$0.7 million of deferred transaction costs. The deferred transaction costs represent closing finance costs amortized straight line over the term of the loan facility, of which $0.4 million will be amortized within the next 12 months and US$0.3 million over the remainder of the term.

For the year ended December 31, 2014 there has been US$0.4 million of transaction costs amortized which were included in the finance expenses.

Subsequent to the year-end, the Company repaid US$1.2 million under Tranche B of the Facility.

Note 13 Trade and other payables

	December 31, 2014	December 31, 2013
Current		
Trade payables	**2,068**	2,787
Accruals	**2,018**	2,175
Other payables	**297**	226
	4,383	5,188

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.

The trade payables represent outstanding invoices due for payment in regard to the Shukheir Marine concession and are denominated in EGP.

Accruals represent i) PetroAmir outstanding opex and capex invoice accruals as notified by the Operator of the NW Gemsa concession of US$1.0 million, ii) transfer costs of US$0.6 million due to EGAS, on assignment of the South Disouq concession by Sea Dragon Energy Inc. to Sea Dragon Energy (Nile) B.V. (55%) and the South Disouq farminee (45%), iii) 2014 audit fee accruals of US$0.1 million, iv) 2014 reserves reporting accruals of US$0.1 million, and v) gas processing fees for the NW Gemsa concession of US$0.1 million.

In relation to point ii) above the farminee of the South Disouq concession was issued with a joint interest billing for their share of the transfer costs (US$0.2 million). Payment was received from the farminee during December 2014 and was recorded within the partner current account. See Note 7 Trade and other receivables.

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 14 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, 2014 and 2013	**376,459**	**119,574**

Note 15 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 CAD$0.075 per common share.

Effective September 30, 2014 the Company cancelled 100,000 options, on the final day of the employee's notice period.

Effective April 1, 2015 the Company will cancel a further 4,000,000 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, 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	(4,760)	0.13
Expired during the period	(400)	0.30
Issued during the period	13,700	0.08
Outstanding December 31, 2014	**33,200**	**0.10**
Exercisable December 31, 2014	**17,083**	**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	33,200,000	3.4 years	17,083,327	2.7 years

The fair value of the options granted during 2014 and 2013 were estimated using the Black Scholes model with the following weighted average inputs:

	2014	2013
Fair value at grant date *(CDN)*	**$0.05**	$0.03
Share price *(CDN)*	**$0.07**	$0.07
Exercise price *(CDN)*	**$0.08**	$0.13
Volatility *(%)*	**92**	95
Forfeiture *(%)*	**0.73**	1.78
Option life	**5 years**	5 years
Dividends *(%)*	**0**	0
Risk-free interest rate *(%)*	**1.3**	1.2

Note 16 Revenue

	Year ended December 31, 2014	Year ended December 31, 2013
Oil revenue	**46,126**	61,305
Royalties	**(26,043)**	(32,350)
Oil revenue, net of royalties	**20,083**	28,955
Gas revenue	**257**	301
Royalties	**(319)**	(126)
Gas revenue, net of royalties	**(62)**	175
NGL revenue	**415**	497
Royalties	**(517)**	(207)
NGL revenue, net of royalties	**(102)**	290
Total net revenue	**19,919**	29,420

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

During December 2014 a provision was made for excess cost (recorded within Royalties) in relation to the accrued revenue for condensates (shown with Oil revenue), gas and NGL. This provision covered the period February 2013 to September 2014 and amounted to US$0.8 million, or 80% of the inception to date recognized net revenue. The provision of US$0.8 million is split equally between 2014 and 2013 at US$0.4 million per annum and was provided upon net revenues in 2014 and 2013 of US$0.5 million per annum.

Note 17 General and Administration expenses

	TWELVE MONTHS ENDED DECEMBER 31	
	2014	2013
Wages and employee costs	**2,191**	2,352
Consultants - inc. PR/IR	**729**	556
Legal fees	**218**	218
Audit, tax and accounting services	**250**	321
Public company fees	**209**	216
Travel	**371**	451
Office expenses	**455**	826
IT expenses	**228**	153
Bank charges	**34**	26
Restructuring costs	**–**	972
Total	**4,685**	6,091

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 25.

General and administrative ("G&A") costs for 2014 were US$4.7 million, which represented a decrease of US$1.4 million compared to 2013. Removing the 2013 restructuring costs of US$1.0 million the decrease is US$0.4 million or 8.5%. The decrease is due to lower audit, tax and accounting services, travel and office expenses offset by higher IT expenses.

Note 18 Financing costs

	December 31, 2014	December 31, 2013
Finance expense	**1,045**	856
Net financing cost	**1,045**	856

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

Note 19 Deferred Income Tax

As at December 31, 2014 no deferred tax asset was recognized in the statement of financial position for the following temporary deductible timing differences:

	2014	2013
Property and equipment	**25,146**	25,173
Non-capital losses	**51,384**	45,972
Share issue costs	**–**	642
Deferred income tax asset	**76,530**	71,787

	2014	2013
Loss before income taxes	**(4,253)**	(1,260)
Canadian statutory income tax rate	**25%**	25%
Expected income taxes (recovery)	**(1,063)**	(315)
Adjustments:		
Stock based compensation	**112**	200
Unrecognized income tax benefit	**1,186**	1,586
Foreign tax rate differential	**1,529**	2,473
Expenses incurred with no recognized tax benefit	**1,916**	2,139
Change in income tax rates and certain tax balances	**1,027**	44
Gain on acquisition	**–**	323
Current income taxes	**4,707**	6,448

Note 20 Loss per share

	Year ended December 31, 2014	Year ended December 31, 2013
Net loss for the year	**(8,960)**	(7,708)
Weighted average number of shares *(000's)*		
Basic & Diluted	**376,459**	376,459
Per share amount - basic & diluted	**$ (0.02)**	$ (0.02)

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

Note 21 Segmental Reporting

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 functions consist of the Company's operations in Egypt.

Set out below is segmented information on a functional basis.

	YEAR ENDED DECEMBER 31, 2014			YEAR ENDED DECEMBER 31, 2013		
	Corporate	Operations	Total	Corporate	Operations	Total
Segment revenue	–	19,919	19,919	–	29,420	29,420
Direct operating expenses	–	7,991	7,991	–	8,562	8,562
Exploration and evaluation expense	348	(130)	218	375	293	668
Unsuccessful well costs – exploration	–	177	177	–	–	–
Depletion, depreciation and amortization	146	4,493	4,639	35	4,699	4,734
Impairment expense	–	2,820	2,820	–	7,158	7,158
Impairment of inventory	–	1,235	1,235	–	–	–
Foreign exchange loss	453	–	453	198	254	452
Stock based compensation	447	–	447	799	–	799
Loss on disposal of office assets	–	–	–	69	–	69
Loss on disposal of Kom Ombo concession	–	351	351	–	1,702	1,702
Loss on disposal of inventory	–	111	111	–	(411)	(411)
General and administrative expenses	3,881	804	4,685	5,238	853	6,091
Operating (loss)/income	(5,275)	2,067	(3,208)	(6,714)	6,309	(404)
Finance expense	1,045	–	1,045	856	–	856
(Loss)/income before income tax	(6,320)	2,067	(4,253)	(7,570)	6,309	(1,260)
Current income tax expense	–	4,707	4,707	–	6,448	6,448
Comprehensive (loss) for the year	(6,320)	(2,640)	(8,960)	(7,570)	(139)	(7,708)

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

	DECEMBER 31, 2014			DECEMBER 31, 2013		
	Corporate	Operations	Total	Corporate	Operations	Total
Segment assets	7,916	32,367	40,283	4,634	34,895	39,529
Segment liabilities	10,693	3,762	14,455	982	4,206	5,188

The segment capital expenditures for the year ended December 31, 2014 and 2013 are as follows:

	YEAR ENDED DECEMBER 31, 2014			YEAR ENDED DECEMBER 31, 2013		
	Corporate	Operations	Total	Corporate	Operations	Total
Capital additions	6	4,309	4,315	325	7,959	8,284

Note 22 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 two new concessions, South Ramadan and South Disouq.

Commitments of US$2.9 million for South Ramadan relate to the work program and consist of the drilling of one well and facilities upgrade.

Commitments of US$6.0 million for South Disouq relate to the work program and consists of 3D seismic. The work program for South Disouq is secured by the issuance of a rolling receivables pledge against Shukheir Marine oil invoices of US$3.0 million.

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

	2014	2013
Less than one year	**–**	–
Between one and five years	**8,933**	2,933
More than five years	**–**	–
	8,933	2,933

Operating leases

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

	2014	2013
Less than one year	**193**	–
Between one and five years	**4**	220
More than five years	**–**	–
	197	220

Note 23 Contingencies

There are no contingencies as at December 31, 2014.

Note 24 Related party transactions

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

Name	Percentage	Country of operation	Country of registration
Sea Dragon Energy (NW Gemsa) B.V.	100%	Egypt	Netherlands
Sea Dragon Energy (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

Note 25 Compensation of key management personnel

The remuneration of directors and other key management personnel during the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
Salaries, incentives and short term benefits	**1,701**	1,340
Stock based compensation	**438**	647
Total	**2,139**	1,987

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

Note 26 Subsequent Events

- The Company completed the farm out of the South Disouq concession. Under the Deed of Assignment, issued on January 12, 2015, the Company farmed out a 45% interest in the concession. Under the terms of the Farm Out Agreement the farminee would pay US$1.9 million in past costs and replace US$6.0 million in work program guarantees originally posted by the Company.
- On January 29, 2015 the Company received the US$1.9 million of past costs related to the South Disouq farm out from the farminee.
- On January 29, 2015 the Company repaid US$1.2 million of bank debt under Tranche B of the Facility.
- An agreement was signed by the Company and EGPC on February 26, 2015 confirming the relinquishment of the Company's interest in the Shukheir Marine concession; effective January 31, 2015.
- Effective April 1, 2015 the Company will cancel 4,000,000 options, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, Section 2.09.

EXECUTIVE OFFICERS

Said Arrata P.Eng.

Executive Chairman & Director

Paul Welch

President and
Chief Executive Officer
Chief Operating Officer

Olivier Serra

Chief Financial Officer & Director

Ahmed Farid Moaaz

Country Manager & Director

INDEPENDENT DIRECTORS

Barry Swan

Paul Moase

Rob Moffat

Ken Fitzgerald

STOCK EXCHANGE LISTING

TSX Venture Exchange

Symbol: SDX

Registrar and Transfer Agent

TMX Equity Transfer Services
200 University Avenue, Suite 300
Toronto, ON
M5H 4H1 Canada
Telephone: +(416) 361-0152
FAX: +(416) 361-0470

INDEPENDENT ENGINEERS

Ryder Scott

Calgary, Alberta, Canada

AUDITORS

PriceWaterhouseCoopers LLP

1 Embankment Pl, London
WC2N 6RH
United Kingdom

INVESTOR RELATIONS

Bell Pottinger

6th Floor, Holborn
Gate 330 High Holborn
London WC1V 7QD
+44 207 861 3232

SEA DRAGON'S OFFICE LOCATIONS

Canada

Centennial Place, East Tower
1900, 520-3rd Avenue SW
Calgary, Alberta
Canada, T2P 0R3
Telephone: +1 (403) 457-5035
Fax: +(403) 457-5420

Egypt

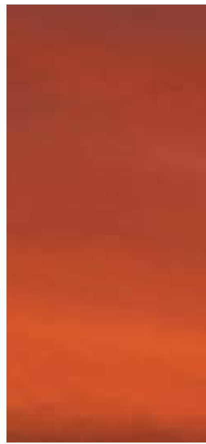
Apt #1,
Building #12, Al Nahda St.,
El-Maadi, Kornish El Nile
Cairo, Egypt
Telephone: +(20) 2 2358 2172
Fax: +(20) 2 2750 8534

United Kingdom

38 Welbeck Street
London
W1G 8DP
United Kingdom
Telephone: +44 203 219 5640
Fax: +44 203 219 5655

EMAIL: SARAH@SEADRAGONENERGY.COM

WWW.SEADRAGONENERGY.COM



www.seadragonenergy.com