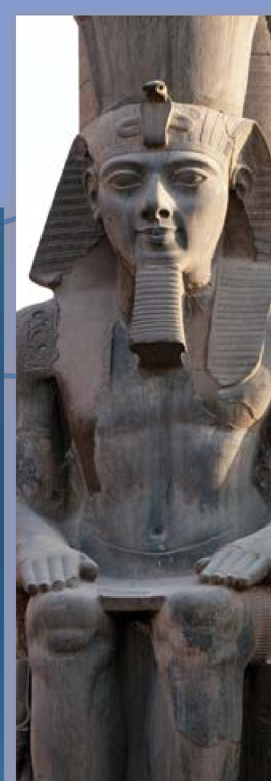
Financial Statements



Interim Consolidated Balance Sheets (Unaudited)

(thousands of United States dollars)	Note	AS AT JUNE 30, 2015	AS AT DECEMBER 31, 2014
Assets			
Cash and cash equivalents	5	**494**	2,966
Restricted cash	5	**–**	6,000
Trade and other receivables	6	**3,875**	8,678
Inventory		**1,604**	1,493
Deferred transaction costs	9	**366**	373
Current assets		**6,339**	19,510
Trade and other receivables	6	**3,000**	–
Deferred transaction costs	9	**103**	280
Property, plant and equipment, net	7	**16,453**	17,418
Intangible exploration and evaluation assets	8	**3,250**	3,075
Non-current assets		**22,806**	20,773
Assets		**29,145**	40,283
Liabilities			
Bank Indebtedness	9	**1,950**	10,072
Trade and other payables	10	**1,551**	4,383
Current and total liabilities		**3,501**	14,455
Equity			
Share capital	11	**119,574**	119,574
Contributed surplus		**9,240**	9,138
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(100,693)**	(100,407)
Equity		**25,644**	**25,828**
Equity and liabilities		**29,145**	**40,283**

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 2015	THREE MONTHS ENDED JUNE 30 2014	SIX MONTHS ENDED JUNE 30 2015	SIX MONTHS ENDED JUNE 30 2014
Revenue, net of royalties	*13*	**1,783**	5,818	**4,402**	11,625
Revenue		**1,783**	5,818	**4,402**	11,625
Direct operating (income)/expense	*14*	**(336)**	1,523	**415**	3,380
Exploration and evaluation expense	*8*	**33**	47	**74**	104
Unsuccessful well costs - exploration	*8*	**–**	–	**–**	187
Depletion, depreciation and amortization	*7*	**484**	1,374	**1,248**	2,794
Foreign exchange loss		**(17)**	182	**59**	316
Stock based compensation	*12*	**59**	199	**102**	254
(Gain)/loss on disposal of materials inventory		**(81)**	–	**(235)**	143
Loss on disposal of Kom Ombo concession		**–**	–	**–**	291
General and administrative expenses	*15*	**841**	1,175	**1,755**	2,169
Operating Income		**800**	1,318	**984**	1,987
Finance Expense		**158**	206	**394**	514
Income before income taxes		**642**	1,112	**590**	1,473
Current income tax expense	*16*	**412**	1,361	**876**	2,755
Total comprehensive income/(loss) for period		**230**	(249)	**(286)**	(1,282)
Net income/(loss) per share - basic and diluted	*17*	**$0.00**	($0.00)	**($0.00)**	($0.00)

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

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	SIX MONTHS ENDED JUNE 30 2015	2014
Share capital		
Balance, beginning of period	**119,574**	119,574
Balance, end of period	**119,574**	119,574
Contributed Surplus		
Balance, beginning of period	**9,138**	8,691
Share based payments	**102**	254
Balance, end of period	**9,240**	8,945
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	**(100,407)**	(91,447)
Total comprehensive loss for the period	**(286)**	(1,282)
Balance, end of period	**(100,693)**	(92,729)
Total Equity	**25,644**	33,313

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 2015	2014	SIX MONTHS ENDED JUNE 30 2015	2014
Cash flows from/ (used in) operating activities:					
Net income/(loss) for the period		**230**	(249)	**(286)**	(1,282)
Adjustments for:					
Depletion, depreciation and amortization	*7*	**484**	1,374	**1,248**	2,794
Unsuccessful wells		**–**	–	**–**	187
Amortization of deferred transaction costs		**92**	92	**184**	184
Unrealized foreign exchange loss		**(17)**	182	**36**	324
Stock-based compensation	*12*	**59**	199	**102**	254
(Gain)/loss on disposal of materials inventory		**(81)**	–	**(235)**	143
Loss on disposal of Kom Ombo Concession		**–**	–	**–**	291
Operating cash flows before change in non-cash working capital		**767**	1,598	**1,049**	2,895
Change in non-cash working capital including non-current provision		**(1,349)**	(1,776)	**(115)**	(4,138)
Net cash (used in)/from operating activities		**(582)**	(178)	**934**	(1,243)
Cash flows used in investing activities:					
Property, plant and equipment expenditures	*7*	**(1,125)**	(599)	**(1,309)**	(1,099)
Exploration and evaluation expenditures	*8*	**(90)**	(19)	**(174)**	(4,019)
Cash from disposal of materials inventory		**81**	–	**235**	534
Cash from disposal of Kom Ombo Concession		**–**	–	**–**	261
Net cash used in investing activities		**(1,134)**	(618)	**(1,248)**	(4,323)
Cash flows (used in)/from financing activities:					
Proceeds from bank facility		**–**	7,500	**–**	9,500
Repayment of bank facility	*9*	**(6,912)**	–	**(8,122)**	(500)
Restricted cash/bank guarantees		**6,000**	(6,000)	**6,000**	(6,000)
Net cash (used in)/from financing activities		**(912)**	1,500	**(2,122)**	3,000
Change in cash and cash equivalents		**(2,628)**	704	**(2,436)**	(2,566)
Effect of foreign exchange on cash and cash equivalents		**17**	(182)	**(36)**	(324)
Cash and cash equivalents, beginning of period		**3,105**	875	**2,966**	4,287
Cash and cash equivalents, end of period		**494**	1,397	**494**	1,397
Supplemental information					
Interest paid		67	23	211	71

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

(tabular amounts are in thousands of United States dollars except where stated)

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, 2015 and 2014 comprise the Company and its 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, 2015 and 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, 2014, 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 26, 2015.

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, 2015.

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, 2015	DECEMBER 31, 2014
Cash and cash equivalents	**494**	2,966
Trade and other receivables – current	**3,875**	8,678
Trade and other receivables – non-current	**3,000**	–
Total	**7,369**	11,644

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Restricted cash	**–**	6,000

In 2014 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. During Q2 2015, the Farminee of the concession successfully replaced the US$6.0 million of guarantees originally posted by the Company; resulting in the cancellation of the bank guarantees and the restricted funds being returned. These funds were utilized by the Company to repay bank debt under the Facility.

Trade and other receivables (current and non-current):

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, 2015 and December 31, 2014.

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

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Current		
Government of Egypt controlled corporations	**1,948**	5,536
Joint venture partners	**1,190**	2,592
Other	**737**	550
Total trade and other receivables - current	**3,875**	8,678

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Non-current		
Government of Egypt controlled corporations	**3,000**	–
Total trade and other receivables - current	**3,000**	–

Current receivables of US$1.9 million related to oil sales are due from EGPC (December 31, 2014: US$5.5 million), a Government of Egypt controlled corporation. Receivables in respect of oil sales are normally collected in two to four months following production. The Company expects to collect US$1.9 million of outstanding receivables for NW Gemsa, in the normal course of operations.

The joint venture partners receivables of US$1.2 million relates to the joint venture partner accounts for the NW Gemsa (US$1.1 million) and the South Disouq (US$0.1 million) concessions. The joint venture partner accounts have decreased by US$1.4 million compared to December 31, 2014.This decrease is due to the receipt of US$1.9 million in past costs and assignment fees as a result of the 45% farm out, by the Company, of the South Disouq concession, US$0.3 million related to the Shukheir Marine concession joint venture partner receivables being removed and included in other receivables as part of the agreed relinquishment balance, the payment of US$2.1 million of billings to the Operator of the NW Gemsa concession previously classified as partner receivables, partially offset by a US$1.3 million decrease in NW Gemsa working capital.

The other receivables of US$0.7 million consist of US$0.2 million accrued gas and liquids revenue yet to be invoiced, US$0.3 million for prepayments, US$0.1 million related to the relinquishment of Shukheir Marine and US$0.1 million other.

The non-current receivables of US$3.0 million relate to the Shukheir Marine concession; 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 and have been classified as non-current receivables as they are not expected to be collected within the next 12 month period. Refer to Note 6 for further details.

As at June 30, 2015 and December 31, 2014, the Company's trade and other receivables, both current and non-current, is aged as follows:

	CARRYING AMOUNT	
$000's	JUNE 30, 2015	DECEMBER 31, 2014
Current		
Current (less than 90 days)	**3,686**	6,422
Past due (more than 90 days)	**189**	2,256
Total - current	**3,875**	8,678

	CARRYING AMOUNT	
$000's	JUNE 30, 2015	DECEMBER 31, 2014
Non-current		
Past due (more than 90 days)	**3,000**	–
Total - non-current	**3,000**	–

The balances which are past due are not considered impaired.

Current trade and other receivables past due have decreased by US$2.1 million when compared to December 31, 2014. This decrease is primarily due to the reclassification of the Shukheir Marine receivables to non-current.

Non-current trade and other receivables related to Shukheir Marine pledged receivables are aged past due, more than 90 days old. The past due receivables represent the April to October 2014 oil sales invoices.

Subsequent to June 30, 2015 the Company collected US$1.8 million from a government of Egypt controlled corporation for NW Gemsa receivables, thereby reducing the current (less than 90 days) balance.

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, 2015, 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 US$ and EGP. The Company has been so far able to utilize EGP locally to fund local office general and administrative expenses as well as cash calls on both capital 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:

As at June 30, 2015	TOTAL PER FS[1]	US$	EGP	EUR	CAD	GBP
	US$ EQUIVALENT					
Cash and cash equivalents	494	211	141	13	33	96
Trade and other receivables - current	3,875	3,593	27	7	1	247
Trade and other receivables - non-current	3,000	3,000	–	–	–	–
Bank indebtedness	(1,950)	(1,950)	–	–	–	–
Trade and other payables	(1,551)	(1,092)	–	(13)	(246)	(200)
Balance sheet exposure	3,868	3,762	168	7	(212)	143

[1] *denotes Financial Statements*

The average exchange rates during the three months ended June 30, 2015 were 1 US$ equals:

AVERAGE: April 1, 2015 to June 30, 2015	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.2297	0.6532	0.9044	7.6025

AVERAGE: April 1, 2014 to June 30, 2014	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0908	0.5942	0.7290	7.0476

The average exchange rates during the six months ended June 30, 2015 were 1 US$ equals:

AVERAGE: January 1, 2015 to June 30, 2015	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.2340	0.6564	0.8958	7.5389

AVERAGE: January 1, 2014 to June 30, 2014	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0963	0.5992	0.7294	6.9898

The period end exchange rates as at June 30, 2015 were 1 US$ equals:

PERIOD END: June 30, 2015	USD / CAD	USD / GBP	USD / EUR	USD / EGP
June 30, 2015	1.2354	0.6361	0.9012	7.6474

PERIOD END: June 30, 2014	USD / CAD	USD / GBP	USD / EUR	USD / EGP
June 30, 2014	1.0661	0.5866	0.7325	7.1311

(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, 2015 the Company did not have any outstanding derivatives in place.

(g) Capital management:

The Company defines and computes its capital as follows:

	CARRYING AMOUNT	
$000's	JUNE 30, 2015	DECEMBER 31, 2014
Equity	**25,644**	25,828
Working capital [1]	**(2,838)**	(5,055)
Total capital	**22,806**	20,773

[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, 2015	DECEMBER 31, 2014
Bank balances	**494**	2,966
Cash and cash equivalents	**494**	2,966

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

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Restricted cash	**–**	6,000

In 2014 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.

During Q2 2015 US$6.0 million of bank guarantees have been successfully replaced by the Farminee of the South Disouq concession. The US$6.0 million of bank guarantees, originally posted by the Company, have been cancelled and the funds originally placed in a restricted bank account with HSBC returned to the Company. The Company has utilized these funds to repay debt under the Facility; see Note 9 Loans and Borrowings.

Note 6 Trade and other receivables (current and non-current):

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Current		
Trade receivables	**1,948**	5,536
Other receivables	**1,927**	3,142
	3,875	8,678

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

Current trade receivables comprise the crude oil sales invoices for the NW Gemsa concession.

The other receivables of US$1.9 million include: US$1.2 million joint venture current accounts for the NW Gemsa and South Disouq concessions, US$0.2 million for accrued gas and liquids revenue yet to be invoiced, US$0.3 million related to prepayments, US$0.1 million related to the relinquishment of the Shukheir Marine concession and US$0.1 million for other.

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Non-current		
Trade receivables	**3,000**	–
	3,000	–

Non-current trade and other receivables are unsecured and non-interest bearing.

The non-current trade receivables of US$ 3.0 million relate to Shukheir Marine and have been withheld as a guarantee for the work program of the South Disouq concession.

The Shukheir Marine receivables are currently comprised of oil invoices for the period April to October 2014; approximately seven months of oil invoices.

The withheld Shukheir Marine receivables of US$3.0 million will be collected once the Company 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 Shukheir Marine receivables have been classified as non-current as they are not expected to be collected within the next 12 month period.

Note 7 Property, plant and equipment:

	OIL INTERESTS	FURNITURE AND FIXTURES	TOTAL
Cost:			
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**
Additions	283	–	283
Relinquishment of the Shukheir Marine concession	**(4,730)**	**(4)**	**(4,734)**
Balance at June 30, 2015	**30,027**	**515**	**30,542**
Accumulated depletion and depreciation:			
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)**
Depletion and depreciation for the period	(1,186)	(62)	(1,248)
Relinquishment of the Shukheir Marine concession	4,730	4	4,734
Balance at June 30, 2015	**(13,674)**	**(415)**	**(14,089)**
NBV Property, plant and equipment as at December 31, 2014	**17,256**	**162**	**17,418**
NBV Property, plant and equipment as at June 30, 2015	**16,353**	**100**	**16,453**

During the period ended June 30, 2015 the Company had PP&E additions of US$0.3 million.

At June 30, 2015 for the purposes of the depletion calculation, US$1.7 million (June 30, 2014 – US$0.4 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Note 8 Intangible exploration and evaluation assets:

Cost:	
Balance at December 31, 2013	752
Additions	2,500
Exploration and evaluation expense	(177)
Balance at December 31, 2014	**3,075**
Additions	175
Balance at June 30, 2015	**3,250**

During the period ended June 30, 2015, the Company incurred US$0.2 million of intangible capital expenditure related to the South Disouq concession.

During the period ended June 30, 2015, the Company incurred US$0.1 million (US$0.1 million – 2014) in pre-license costs which were expensed. The pre-license costs related to business development costs.

Note 9 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, 2015.

As at June 30, 2015 the Company has US$2.0 million in amounts drawn from the Facility, consisting of US$0.2 million under Tranche A and US$1.8 million under Tranche B. As at June 30, 2015 the Facility is fully utilized; with no remaining availability.

Cash drawdown classified as current as at June 30, 2015:

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Tranche A	**150**	7,062
Tranche B	**1,800**	3,010
Total	**1,950**	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 redetermination calculations. The Company repaid US$7.0 million under Tranche A and US$1.1 million under Tranche B during the six months ended June 30, 2015. The Company continues to set aside cash in order to comply with its amortization schedule in accordance with the terms of the Facility and expects to repay US$0.6 million during the second half of 2015.

As at the date of filing the 2015 Q2 Interim Report amounts drawn under the Facility were US$1.7 million.

As at June 30, 2015 there is US$0.5 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$0.1 million over the remainder of the term. For the period ended June 30, 2015 there has been US$183,144 of transaction costs amortized which is included in the finance expenses.

Note 10 Trade and other payables:

	CARRYING AMOUNT	
	JUNE 30, 2015	DECEMBER 31, 2014
Current		
Trade Payables	**471**	2,068
Accruals	**1,054**	2,018
Other payables	**26**	297
	1,551	4,383

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. Trade payables consist of US$0.3 million due to the operator of the NW Gemsa concession and US$0.2 million due to suppliers of the Company's corporate office.

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

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

Note 11 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, 2014 and June 30, 2015	**376,459**	**119,574**

NOTES

Note 12 Stock Options:

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

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. The non-cash compensation expense for the six months ended June 30, 2015 was US$0.1 million (US$0.3 million – 2014).

Effective March 31, 2015 the Company cancelled 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, 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**
Outstanding January 1, 2015	33,200	0.10
Cancelled during the period	(4,000)	0.11
Outstanding June 30, 2015	**29,200**	**0.09**
Exercisable June 30, 2015	**19,450**	**0.10**

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	29,200,000	2.9 years	19,449,991	2.7 years

Note 13 Revenue:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2015	2014	**2015**	2014
Oil revenue	**3,759**	13,331	**8,124**	27,037
Royalties	**(1,976)**	(7,643)	**(3,722)**	(15,679)
Oil revenue, net of royalties	**1,783**	5,688	**4,402**	11,358
Gas revenue	**–**	83	**–**	178
Royalties	**–**	(36)	**–**	(76)
Gas revenue, net of royalties	**–**	47	**–**	102
NGL revenue	**–**	142	**–**	283
Royalties	**–**	(59)	**–**	(118)
NGL revenue, net of royalties	**–**	83	**–**	165
Total net revenue before tax	**1,783**	5,818	**4,402**	11,625

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

The operator continues to be in the process of addressing contractual invoicing with EGPC in relation to gas and liquids. No revenue or sales volumes have been recognized for the three and six months ended June 30, 2015; pending issuance of invoices.

Note 14 Direct Operating (income)/expenses

Due to the relinquishment of the Shukheir Marine concession and the recording of cost reversal adjustments, direct operating costs for the quarter ended June 30, 2015 resulted in income. Direct operating (income)/expenses per concession are as follows:

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2015	2014	**2015**	2014
NW Gemsa	443	406	950	887
Shukheir Marine	(779)	1,117	(535)	2,487
Other	–	–	–	6
Direct Operating (Income)/Expenses	(336)	1,523	415	3,380

Note 15 General and Administration expenses:

$000's	PRIOR QUARTER	THREE MONTHS ENDED JUNE 30 **2015**	2014	SIX MONTHS ENDED JUNE 30 **2015**	2014
Wages and employee costs	500	**597**	541	**1,097**	1,080
Consultants - inc. PR/IR	69	**9**	193	**78**	307
Legal fees	38	**26**	107	**64**	160
Audit, tax and accounting services	83	**123**	32	**206**	96
Public company fees	37	**70**	34	**107**	69
Travel	44	**37**	77	**81**	116
Office expenses	115	**115**	130	**230**	207
IT expenses	21	**21**	55	**42**	122
Bank charges	7	**8**	6	**15**	12
Service recharges	–	**(165)**	–	**(165)**	–
Total - Net G&A	914	**841**	1,175	**1,755**	2,169

General and administrative ("G&A") costs for the three and six months ended June 30, 2015 were US$0.8 million and US$1.8 million respectively, compared to US$1.2 million and US$2.2 million for the comparative periods in the prior year. This represents a decrease of US$0.3 million and US$0.4 million compared to the prior year. The decrease is due to service recharges as well as lower consultants' fees, legal fees, travel and IT expenses, partially offset by higher audit, tax and accounting services, public company fees and office expenses.

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	
	2015	2014	**2015**	2014
Net income/(loss) for the period	**230**	(249)	**(286)**	(1,282)
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)**	($0.00)

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

Note 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, 2015			THREE MONTHS ENDED JUNE 30, 2014		
(tabular amounts are in thousands of United States dollars except where stated)	**CORPORATE**	**OPERATIONS**	**TOTAL**	CORPORATE	OPERATIONS	TOTAL
Revenue	**–**	**1,783**	**1,783**	–	5,818	5,818
Direct operating (income)/expenses	**–**	**(336)**	**(336)**	–	1,523	1,523
Exploration and evaluation expense	**33**	**–**	**33**	23	24	47
Depletion, depreciation and amortization	**30**	**454**	**484**	37	1,337	1,374
Foreign exchange (gain)/loss	**(17)**	**–**	**(17)**	182	–	182
Stock based compensation	**59**	**–**	**59**	199	–	199
(Profit) on disposal of inventory	**–**	**(81)**	**(81)**	–	–	–
General and administrative expenses	**545**	**296**	**841**	948	227	1,175
Operating income/(loss)	**(650)**	**1,450**	**800**	(1,389)	2,707	1,318
Finance expense	**158**	**–**	**158**	206	–	206
Income/(loss) before income tax	**(808)**	**1,450**	**642**	(1,595)	2,707	1,112
Current income tax expense	**–**	**412**	**412**	–	1,361	1,361
Comprehensive income/(loss) for the period	**(808)**	**1,038**	**230**	(1,595)	1,346	(249)

	SIX MONTHS ENDED JUNE 30, 2015			SIX MONTHS ENDED JUNE 30, 2014		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Revenue	**–**	**4,402**	**4,402**	–	11,625	11,625
Direct operating expenses	**–**	**415**	**415**	–	3,380	3,380
Exploration and evaluation expense	**71**	**3**	**74**	27	77	104
Unsuccessful well costs - exploration	**–**	**–**	**–**	–	187	187
Depletion, depreciation and amortization	**58**	**1,190**	**1,248**	74	2,720	2,794
Foreign exchange loss	**59**	**–**	**59**	316	–	316
Stock based compensation	**102**	**–**	**102**	254	–	254
Loss on disposal of Kom Ombo concession	**–**	**–**	**–**	–	291	291
(Profit)/loss on disposal of inventory	**–**	**(235)**	**(235)**	–	143	143
General and administrative expenses	**1,250**	**505**	**1,755**	1,774	395	2,169
Operating income/(loss)	**(1,540)**	**2,524**	**984**	(2,445)	4,432	1,987
Finance expense	**394**	**–**	**394**	514	–	514
Income/(loss) before income tax	**(1,934)**	**2,524**	**590**	(2,959)	4,432	1,473
Current income tax expense	**–**	**876**	**876**	–	2,755	2,755
Comprehensive (loss) for the period	**(1,934)**	**1,648**	**(286)**	(2,959)	1,677	(1,282)

The segment assets and liabilities as at June 30, 2015 and December 31, 2014 are as follows:

	JUNE 30, 2015			DECEMBER 31, 2014		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Segment assets	**1,178**	**27,967**	**29,145**	7,916	32,367	40,283
Segment liabilities	**2,521**	**980**	**3,501**	10,693	3,762	14,455

The segment capital expenditures for the three and six months ended June 30, 2015 and 2014 are as follows:

	THREE MONTHS ENDED JUNE 30, 2015			THREE MONTHS ENDED JUNE 30, 2014		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Capital additions	**–**	**270**	**270**	10	1,005	1,015

	SIX MONTHS ENDED JUNE 30, 2015			SIX MONTHS ENDED JUNE 30, 2014		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Capital additions	**–**	**458**	**458**	10	5,858	5,868

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 drilling of one development well and facilities upgrade for South Ramadan (US$2.9 million) and 3D seismic and the drilling of one exploration well for South Disouq (US$5.0 million) The work program for South Disouq is secured by a US$3.0 million with-holding of Shukheir Marine receivables.

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

	JUNE 30, 2015	JUNE 30, 2014
Less than one year	**4,950**	–
Between one and five years	**2,933**	11,933
More than five years	**–**	
	7,883	11,933

Note 20 Subsequent Events:

On August 19, 2015 the Company issued a joint press release announcing a Strategic Business Combination with Madison PetroGas Ltd ("Madison") and the creation of SDX Energy Inc. The parties entered into an Arrangement Agreement dated August 18, 2015. The Company will acquire all of the issued and outstanding Madison common shares by way of a statutory plan of arrangement under the Business Corporations Act (Alberta) ("ABCA"). The combined entity will be renamed SDX Energy Inc.

Prior to the closing of the transaction the Company will affect a share consolidation of one (1) post-consolidation share for thirty-five (35) pre-consolidation shares in the Company. The share consolidation and name change require the approval of the Shareholders of the Company at the forthcoming Annual General and Special Meeting scheduled to take place on September 28, 2015.

The transaction requires the approval of the Shareholders of Madison and the TSX Venture Exchange. Approval from the TSX Venture Exchnage is also required for the Sea Dragon share consolidation.