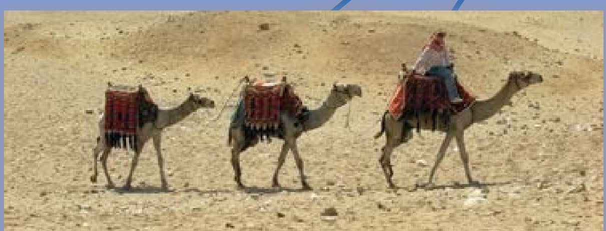
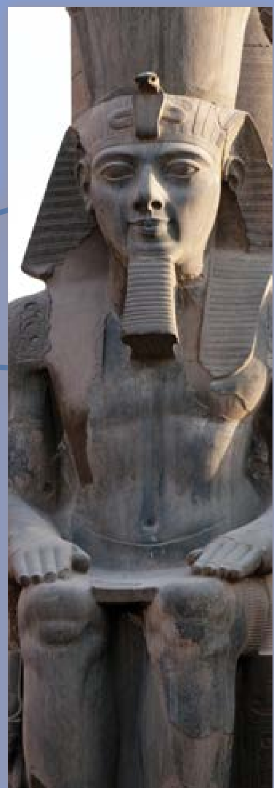
Financial Statements





Interim Consolidated Balance Sheets (Unaudited)

(thousands of United States dollars)	Note	AS AT MARCH 31, 2014	As at December 31, 2013
Assets			
Cash and cash equivalents	*5*	**875**	4,287
Trade and other receivables	*6*	**8,576**	7,130
Inventory		**2,588**	3,279
Deferred transaction costs	*10*	**371**	371
Current assets		**12,410**	15,067
Deferred transaction costs	*10*	**556**	648
Property, plant and equipment, net	*8*	**22,495**	23,062
Intangible exploration and evaluation assets	*9*	**4,565**	752
Non-current assets		**27,616**	24,462
Assets		**40,026**	39,529
Liabilities			
Bank indebtedness	*10*	**1,500**	–
Trade and other payables	*11*	**5,163**	5,188
Current liabilities		**6,663**	5,188
Equity			
Share capital	*12*	**119,574**	119,574
Contributed surplus		**8,746**	8,691
Accumulated other comprehensive loss		**(2,477)**	(2,477)
Accumulated deficit		**(92,480)**	(91,447)
Equity		**33,363**	34,341
Equity and liabilities		**40,026**	39,529

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

Approved on behalf of the Board of Directors

Paul Welch
Chief Executive Officer

Olivier Serra
Chief Financial Officer

Interim Consolidated Statements of Comprehensive Loss (Unaudited)

(thousands of United States dollars, except per share data)	Note	THREE MONTHS ENDED MARCH 31 2014	2013
Revenue, net of royalties	*14*	**5,807**	6,931
Revenue		**5,807**	6,931
Direct operating expense		**1,857**	1,629
Exploration and evaluation expense	*9*	**57**	327
Unsuccessful well costs - exploration	*9*	**187**	–
Depletion, depreciation and amortization	*8*	**1,420**	1,457
Impairment expense		**–**	7,158
Foreign exchange loss		**134**	147
Stock based compensation	*13*	**55**	175
Loss on disposal of materials inventory		**143**	–
Loss on disposal of Kom Ombo concession	*7*	**291**	–
General and administrative expenses	*15*	**994**	1,123
Operating income/(loss)		**669**	(5,085)
Finance expense		**308**	228
Income/(loss) before income taxes		**361**	(5,313)
Current income tax expense		**1,394**	1,507
Total comprehensive (loss) for the period		**(1,033)**	(6,820)
Net (loss) per share – basic and diluted	*17*	**$ (0.00)**	$ (0.02)

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

Interim Consolidated Statement of Changes in Equity (Unaudited)

(thousands of United States dollars)	THREE MONTHS ENDED MARCH 31 2014	 2013
Share capital		
Balance, beginning of period	**119,574**	119,574
Balance, end of period	**119,574**	119,574
Contributed Surplus		
Balance, beginning of period	**8,691**	7,892
Share based payments	**55**	175
Balance, end of period	**8,746**	8,067
Accumulated Other Comprehensive Loss		
Balance, beginning of period	**(2,477)**	(2,477)
Balance, end of period	**(2,477)**	(2,477)
Accumulated Deficit		
Balance, beginning of period	**(91,447)**	(83,739)
Total comprehensive (loss) for the period	**(1,033)**	(6,820)
Balance, end of period	**(92,480)**	(90,559)
Total Equity	**33,363**	34,605

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 MARCH 31 2014	2013
Cash flows from/(used in) operating activities			
Net loss for the period		**(1,033)**	(6,820)
Adjustments for:			
Depletion, depreciation and amortization	*8*	**1,420**	1,457
Unsuccessful well costs – exploration	*9*	**187**	–
Impairment expense		**–**	7,158
Amortization of deferred transaction costs		**92**	93
Unrealized foreign exchange gain/(loss)		**142**	(101)
Stock–based compensation		**55**	175
Loss on disposal of materials inventory		**143**	–
Loss on disposal of Kom Ombo Concession	*7*	**291**	–
Operating cash flows before change in non-cash working capital		**1,297**	1,962
Change in non-cash working capital		**(2,362)**	(1,804)
Net cash (used in)/from operating activities		(1,065)	158
Cash flows (used in)/from investing activities:			
Property, plant and equipment expenditures	*8*	**(500)**	(1,819)
Exploration and evaluation expenditures	*9*	**(4,000)**	–
Cash from disposal of material inventory		**534**	–
Cash from disposal of Kom Ombo concession	*7*	**261**	–
Net cash (used in) investing activities		**(3,705)**	(1,819)
Cash flows from/(used in) financing activities:			
Proceeds from bank facility	*10*	**2,000**	2,000
Repayment of bank facility	*10*	**(500)**	(500)
Net cash from financing activities		**1,500**	1,500
Change in cash and cash equivalents		**(3,270)**	(161)
Effect of foreign exchange on cash and cash equivalents		**(142)**	101
Cash and cash equivalents, beginning of period		**4,287**	5,658
Cash and cash equivalents, end of period		**875**	5,598
Supplemental information			
Interest paid		48	38

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

(tabular amounts are in thousands of United States dollars except per share data)

Note 1 Reporting entity:

Sea Dragon Energy Inc. ("Sea Dragon" or "the Company") is a company domiciled in Canada. The address of the Company's registered office is 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 months ended March 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 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 months ended March 31, 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim Consolidated Financial Statements of Sea Dragon Energy were approved by the Audit Committee on May 29, 2014.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The policies applied are based on IFRS issued and outstanding as of March 31, 2014.

Note 3 Determination of fair values:

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

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

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

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

Level 3 Fair value measurements are based on unobservable information.

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

Stock options:

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

Note 4 Financial risk management:

(a) Overview:

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

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

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

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

(b) Credit risk:

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

	CARRYING AMOUNT	
	MARCH 31, 2014	DECEMBER 31, 2013
Cash and cash equivalents	**875**	4,287
Trade and other receivables	**8,576**	7,130
Total	**9,451**	11,417

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 March 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	
	MARCH 31, 2014	DECEMBER 31, 2013
Government of Egypt controlled corporations	**5,766**	4,629
Joint venture partners	**872**	579
Other	**1,938**	1,922
Total trade and other receivables	**8,576**	7,130

Receivables of US$5.8 million relating to oil and gas sales are due from EGPC and GPC (December 31, 2013: US$ 4.6 million), two Government of Egypt controlled corporations and are normally collected in two to four months following production. The Company expects to collect US$3.0 million for outstanding NW Gemsa receivables in the normal course of operations, with US$2.8 million of Shukheir Marine receivables withheld as a rolling guarantee for the work program of the South Disouq concession.

Refer to Note 6 for further details.

The joint venture partners receivables of US$0.9 million relates to partner current accounts for the NW Gemsa and Shukheir Marine concessions. The Company records its net share of the working capital for NW Gemsa, inventory and advances – deposits, in its accounts and this represented US$0.8 million.

The other receivables of US$1.9 million consist primarily of US$0.7 million accrued gas and liquids revenue yet to be invoiced, US$0.4 million due from Dana Gas in relation to Kom Ombo secondee costs and US$0.3 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession.

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

	MARCH 31, 2014	DECEMBER 31, 2013
Current (less than 90 days)	**7,246**	6,848
Past due (more than 90 days)	**1,330**	282
Total	**8,576**	7,130

The balances which are past due are not considered impaired.

Subsequent to March 31, 2014 the Company collected US$1.55 million from government of Egypt controlled corporations, thereby reducing the current (less than 90 days) balance by US$1.55 million.

Cash and cash equivalents:

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

(c) Liquidity risk:

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

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

As at March 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$. Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the EGP and US$ and GBP and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in both EGP and US$. The Company has been so far able to utilize EGP locally to fund local office general and administrative expenses as well as cash calls on both capital expenditure and operating expenditure, therefore reducing the Company's exposure to foreign exchange risk during the period.

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

	TOTAL PER FS[1]	US$	EGP	GBP	OTHER
As at March 31, 2014			*US$ EQUIVALENT*		
Cash and cash equivalents	875	327	261	205	82
Trade and other receivables	8,576	8,257	–	278	41
Bank indebtedness	(1,500)	(1,500)	–	–	–
Trade and other payables	(5,163)	(2,418)	(2,395)	(152)	(198)
Balance sheet exposure	2,788	4,666	(2,134)	331	(75)

[1] *denotes Financial Statements*

The average exchange rates during the three months ended March 31, 2014 were 1 US$ equals:

AVERAGE: 1 January 2014 to 31 March 2014

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.1249	0.6132	0.7413	6.9496

AVERAGE: 1 January 2013 to 31 March 2013

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
Period Average	1.0284	0.6675	0.7771	6.7532

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

PERIOD END: March 31, 2014

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
March 31, 2014	1.1048	0.6006	0.7263	6.9102

PERIOD END: March 31, 2013

	USD/CAD	USD/GBP	USD/EUR	USD/EGP
March 31, 2013	1.0171	0.6575	0.7800	6.6804

(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 March 31, 2014 the Company did not have any outstanding derivatives in place.

(g) Capital management:

The Company defines and computes its capital as follows:

	MARCH 31, 2014	DECEMBER 31, 2013
Equity	**33,363**	34,341
Working capital [1]	**(5,747)**	(9,879)
Total capital	**27,616**	24,462

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

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

Note 5 Cash and cash equivalents:

	MARCH 31, 2014	DECEMBER 31, 2013
Cash at bank	**875**	4,287
Cash and cash equivalents	**875**	4,287

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

Note 6 Trade and other receivables:

	MARCH 31, 2014	DECEMBER 31, 2013
Current		
Trade receivables	**5,766**	4,630
Other receivables	**2,810**	2,500
	8,576	7,130

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

As at March 31, 2014 trade receivables include US$2.8 million for Shukheir Marine and US$3.0 million for NW Gemsa.

The trade receivables pertaining to Shukheir Marine have been withheld as a rolling guarantee in respect of the work obligation under the South Disouq concession agreement. The maximum value of the withholding is US$3.0 million.

As the cumulative value of receivables from Shukheir Marine, effective April 30, 2014, has now exceeded the amount of the guarantee, the withheld receivables become payable on a rolling basis. The receivables are currently comprised of oil invoices for the period November 2013 to March 2014. The value of invoices subject to the guarantee represent approximately six months of oil invoices.

The value of oil invoices withheld under the guarantee will reduce on a quarterly basis as the Company executes on its work obligation on South Disouq.

The other receivables of US$2.8 million consist primarily of US$0.7 million accrued gas and liquids revenue yet to be invoiced, US$0.4 million due from Dana Gas in relation to Kom Ombo secondee costs, US$0.3 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession and US$0.9 million for the joint venture current accounts.

The joint venture current accounts of US$0.9 million, shown within other receivables, relate to the NW Gemsa and Shukheir Marine concessions. The Company records its net share of the working capital for the NW Gemsa concession; this represents US$0.8 million and is comprised of inventory and advances – deposits.

Note 7 Kom Ombo disposal

On November 1, 2013, the Company completed the sale of all of the issued and outstanding shares of its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd (BVI) which held the Company's interest in the Kom Ombo concession. Kom Ombo was sold for a cash consideration of US$6.0 million and a working capital and interim period adjustment of US$1.3 million. The effective date of the transaction was March 1, 2013. The loss on disposal and the working capital and interim period adjustments were included in the consolidated financial statements for the Company as at December 31, 2013.

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

Impact on the Balance Sheet

The agreed additional costs of US$0.17 million, have reduced the outstanding settlement amount from US$0.78 million as at December 31, 2013 to US$0.61 million. Sea Dragon also received the third settlement instalment, as per the terms of the Sale and Purchase Agreement ("SPA") on February 19, 2014 and the remaining balance due to Sea Dragon as at March 31, 2014 is now recalculated as US$0.33 million. The amount of US$0.33 million is reflected in the Trade and other receivables balance contained in the MD&A and Note 6 of the interim consolidated financial statements.

Impact on Statement of Comprehensive Loss

The agreed additional costs of US$0.17 million and additional legal costs of US$0.13 million related to the sale, totaling US$0.29 million have been recorded as a loss on disposal of the Kom Ombo concession on the face of the Statement of Comprehensive Loss.

Impact on the Statement of Cash Flows

On the face of the Statement of Cash Flows, within the cash flows from/(used in) investing activities section, an amount of US$0.26 million is shown as cash from the disposal of Kom Ombo concession. This represents the third instalment of US$0.28 million, under the SPA, less legal costs of US$0.02 million.

Note 8 Property, plant and equipment:

	OIL INTERESTS	ASSETS HELD FOR SALE	FURNITURE AND FIXTURES	TOTAL
Cost:				
Balance at December 31, 2012	**24,834**	**43,151**	**366**	**68,351**
Additions	6,735	468	329	7,532
Intergroup transfer	1,119	(1,119)	–	–
Disposals	–	(42,500)	(205)	(42,705)
Balance at December 31, 2013	**32,688**	**–**	**490**	**33,178**
Additions	853	–	–	853
Balance at March 31, 2014	**33,541**	**–**	**490**	**34,031**
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	(1,380)	–	(40)	(1,420)
Balance at March 31, 2014	**(11,298)**	**–**	**(238)**	**(11,536)**
NBV Property, plant and equipment as at December 31, 2013	22,770	–	292	23,062
NBV Property, plant and equipment as at March 31, 2014	**22,243**	**–**	**252**	**22,495**

During the period ended March 31, 2014 the Company had PP&E additions of US$0.9 million primarily related to two wells, AASE-19 and AASE-19 sidetrack (US$0.4 million) and AASE-21 (US$0.3 million), in the NW Gemsa concession. Included within the PP&E additions are accrued expenditures of US$0.35 million for the drilling of AASE-19, AASE19 sidetrack and AASE 21 in the NW Gemsa concession.

At March 31, 2014, for the purposes of the depletion calculation, US$2.0 million (March 31, 2013 – US$4.6 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Note 9 Intangible exploration and evaluation assets:

Cost:	
Balance at December 31, 2012	–
Additions	752
Balance at December 31, 2013	**752**
Additions	4,000
Exploration and evaluation expense	(187)
Balance at March 31, 2014	**4,565**

During the period ended March 31, 2014, the Company incurred US$4.0 million of intangible capital expenditure related to the signature bonus for the South Disouq concession.

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

During the period ended March 31, 2014, the company incurred US$0.06 million (March 31, 2013 - US$0.3 million) in pre-license costs which were expensed. The pre-license costs consist of US$0.06 million in business development costs.

Note 10 Loans and borrowings:

On September 23, 2011 the Company entered into a credit agreement with HSBC and BNP Paribas for a 5-year senior secured credit facility (the "Facility") in the amount of USD $50 million. The Facility is secured by a first charge on the shares, project accounts and interests of certain of the Sea Dragon group of Companies.

The facility is composed of two tranches:

i) Tranche A borrowing base is determined as a percentage of the specified value of risked 1P estimated future cash flows from certain fields (including NW Gemsa), priced at LIBOR plus 4.75%.

ii) Tranche B borrowing base is determined as 95 percent of the value of existing receivables no more than six months past due from certain fields (including NW Gemsa, priced at LIBOR plus 3%.

The Facility includes standard borrowing base ratios and other customary covenants. The borrowing base is subject to routine semi-annual re-determination based on updated forecast reserves, production and receivables. All covenant requirements were complied with during the period ended March 31, 2014.

As at March 31, 2014 the Company has US$12.5 million in amounts available for borrowing under the Facility, consisting of US$9.7 million under Tranche A and US$2.8 million under Tranche B. As at March 31, 2014 the Company has utilized US$4.5 million under the Facility, consisting of i) US$1.5 million cash drawdown under Tranche B as per the table below and ii) US$3.0 million letter of guarantee issued under Tranche A in relation to the work program for the South Disouq concession.

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

	MARCH 31, 2014	DECEMBER 31, 2013
Tranche A	**–**	–
Tranche B	**1,500**	–
Total	**1,500**	–

Subsequent to the end of the quarter, the Company has increased its utilization of the Facility to a total of US$9.0 million, consisting of i) cash drawdowns of US$5.5 million under Tranche A and US$0.5 million under Tranche B, and ii) the South Disouq letter of guarantee for US$3.0 million.

The Company holds US$3.0 million of proceeds from the Facility as restricted cash in order to provide a US$3.0 million guarantee in relation to the work program for the South Disouq concession. In aggregate, the Company has satisfied its obligation to provide US$9.0 million in guarantees related to the work program for the South Disouq concession, consisting of US$3.0 million of Shukheir Marine account receivables withholdings, and US$6.0 million in letters of guarantee and restricted cash.

As at March 31, 2014 there is US$0.9 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$0.5 million over the remainder of the term. For the period ended March 31, 2014 there has been US$0.1 million of transaction costs amortized which is included in the finance expenses.

Note 11 Trade and other payables

	MARCH 31, 2014	DECEMBER 31, 2013
Current		
Trade Payables	**2,508**	2,787
Accruals	**2,385**	2,175
Other payables	**270**	226
	5,163	5,188

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

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

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

Note 12 Share capital:

The Company is authorized to issue unlimited common shares with no-par value and unlimited preferred shares with no-par value.

	NUMBER OF SHARES *(000'S)*	AMOUNT *($)*
Balance December 31, 2013 and March 31, 2014	**376,459**	**119,574**

Note 13 Stock Options:

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

Effective January 29, 2014 the company cancelled 4,660,000 options, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, Section 2.09.

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	**36,610**	**0.19**
Cancelled during the year	(15,350)	0.31
Re-issued during the year	4,400	0.13
Outstanding December 31, 2013	**24,660**	**0.11**
Outstanding January 1, 2014	**24,660**	**0.11**
Cancelled during the period	4,660	0.13
Outstanding March 31, 2014	**20,000**	**0.11**
Exercisable March 31, 2014	**8,117**	**0.12**

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

	OUTSTANDING OPTIONS		VESTED OPTIONS	
EXERCISE PRICE RANGE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE
$0.01 to $0.18	19,900,000	3.3 years	8,016,647	2.9 years
$0.40 to $0.59	100,000	0.6 years	100,000	0.6 years
	20,000,000	3.3 years	8,116,647	2.9 years

Note 14 Revenue:

	THREE MONTHS ENDED MARCH 31	
	2014	2013
Oil revenue	**13,706**	14,297
Royalties	**(8,036)**	(7,366)
Oil revenue, net of royalties	**5,670**	6,931
Gas revenue	**95**	–
Royalties	**(40)**	–
Gas revenue, net of royalties	**55**	–
NGL revenue	**141**	–
Royalties	**(59)**	–
Natural gas liquids revenue, net of royalties	**82**	–
Total net revenue	**5,807**	6,931

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

Note 15 General and Administration expenses

		THREE MONTHS ENDED MARCH 31	
	PRIOR QUARTER	**2014**	2013
Wages and employee costs	446	**538**	551
Consultants	318	**221**	210
Travel	77	**38**	120
Office expense	394	**191**	237
Bank charges	9	**6**	5
Restructuring costs	267	**–**	–
	1,511	**994**	1,123

General and administrative ("G&A") costs for the three months ended March 31, 2014 were US$1.0 million, compared to US$1.1 million for the comparative period in the prior year; a decrease of US$0.1 million. The decrease is due to a reduction in international flights, the closure of the Calgary office and lower office rent for London.

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 MARCH 31	
	2014	2013
Net loss for the period	**(1,033)**	(6,820)
Weighted average number of shares *(000's)*		
Basic and diluted	**376,459**	376,459
Per share amount – Basic and diluted	**$ (0.00)**	$ (0.02)

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

Note 18 Segmental Reporting:

Functional segments

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions. The executive directors consider the business from predominantly a functional perspective. The corporate function includes the Company's head office in the UK and residual functions in Canada related to 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 MARCH, 2014			THREE MONTHS ENDED MARCH 31, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Segment revenue	**–**	**5,807**	**5,807**	–	6,931	6,931
Segment direct operating expenses	**–**	**1,857**	**1,857**	–	1,629	1,629
Segment exploration and evaluation expense	**3**	**54**	**57**	327	–	327
Segment unsuccessful well costs – exploration	**–**	**187**	**187**	–	–	–
Segmented depletion, depreciation and amortization	**37**	**1,383**	**1,420**	9	1,448	1,457
Segmented impairment expense	**–**	**–**	**–**	–	7,158	7,158
Segmented foreign exchange (gain)/loss	**134**	**–**	**134**	147	–	147
Segmented stock based compensation	**55**	**–**	**55**	175	–	175
Segmented loss on disposal of Kom Ombo concession	**–**	**291**	**291**	–	–	–
Segmented loss on disposal of inventory	**–**	**143**	**143**	–	–	–
Segment general and administrative expenses	**826**	**168**	**994**	924	199	1,123
Segmented operating Income/(loss)	**(1,055)**	**1,724**	**669**	(1,582)	(3,503)	(5,085)
Segmented finance expense	**308**	**–**	**308**	228	–	228
Segmented income/(loss) before income tax	**(1,363)**	**1,724**	**361**	(1,810)	(3,503)	(5,313)
Current income tax expense	**–**	**1,394**	**1,394**	–	1,507	1,507
Comprehensive (income)/loss for the period	**(1,363)**	**330**	**(1,033)**	(1,810)	(5,010)	(6,820)

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

	MARCH 31, 2014			DECEMBER 31, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Segment assets	**2,844**	**37,182**	**40,026**	4,634	34,895	39,529
Segment liabilities	**2,214**	**4,449**	**6,663**	982	4,206	5,188

The segment capital expenditures for the three months ended March 310, 2014 and 2013 are as follows:

	THREE MONTHS ENDED MARCH 31, 2014			DECEMBER 31, 2013		
	CORPORATE	OPERATIONS	TOTAL	CORPORATE	OPERATIONS	TOTAL
Capital additions	**–**	**4,853**	**4,853**	–	1,819	1,819

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..

The commitments relate to the South Ramadan and South Disouq concessions work programs.

This consists of South Ramadan US$2.9 million for one well and facilities upgrade, and South Disouq, US$9.0 million for 3D seismic and one well. The work program for South Disouq is secured by the issuance of guarantees (refer to Note 10 for details).

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

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

Note 20 Subsequent Events:

- On May 6, 2014 the Al Amir S.E. 21 development well, on the NW Gemsa concession, was completed and placed on production. In addition the Al Amir S.E. 22 water injection well, in the NW Gemsa concession, was completed in May, 2014.
- Following a handover period on April 30, 2014 the Company was notified of a change in Operator for the NW Gemsa concession effective May 1, 2014.
- In May 2014, the Company posted an aggregate of US$6.0 million in guarantees and restricted cash to secure the South Disouq work program as per the Concession terms (refer to Note 10 for details).