SEA DRAGON ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

The following management's discussion and analysis (the "MD&A") dated April 29, 2010 is a review of results of operations and the liquidity and capital resources of Sea Dragon Energy Inc. (the "Company" or "Sea Dragon") for its years ended December 31, 2009 and December 31, 2008. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2009 and 2008. The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Certain information contained herein is forward-looking and based upon assumptions and anticipated results that are subject to risks, uncertainties and other factors. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward Looking Information", below.

All financial references in this MD&A are in thousands of Canadian Dollars unless otherwise noted.

Additional information related to the Company will be filed on SEDAR at www.sedar.com.

Forward-Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements. Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks of the Company may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic, political and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Sea Dragon's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Sea Dragon is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. See "Risk Factors."

Non-GAAP Measures

Netback

Netback is a non-GAAP measure that represents sales net of all operating expenses, government royalties and taxes. Management believes that netback is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Netback may not be comparable to similar measures used by other companies.

Fund flow from Operations

Funds flow from operations is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that funds flow from operations is a useful supplemental measure to analyze the Company's ability to generate cash flow to fund capital investment and working capital requirements. Funds flow from operations may not be comparable to similar measures used by other companies.

Reconciliation of Cash Flow from Operations and Funds Flow from Operations

($000)	**2009**	2008
Cash (used in) operating activities	**(2,847)**	(223)
Less: Changes in non-cash working capital	**2,276**	(330)
Funds flow from (used in) operations	**(5,123)**	107

SEA DRAGON'S BUSINESS

Sea Dragon is a Canadian-based, publicly traded, oil exploration and production company whose continuing activities are concentrated in the Arab Republic of Egypt ("Egypt").

Selected annual information

$C 000, except share, per share information and production results	2009	2008	2007
Total Operations			
Average Daily Production volumes (Bopd)	**614**	0	0
Average Daily Sales Volume (Bopd)	**617**	0	0
Average Price ($US/Bopd) (1)	**72.39**	0	0
Oil production, gross (bbls) (1)	**6,143**	0	0
Unrestricted cash balance at year-end	**2,092**	16,733	4,452
Working capital (deficiency)	**3,432**	12,175	(2,350)
Restricted cash	**325**	10,081	-
Capital expenditures	**11,853**	13,245	2,635
Total assets	**22,229**	29,814	8,819
Shareholders' equity	**21,168**	22,868	1,351
Share capital	**54,942**	44,444	2,976
Common shares outstanding			
At year end	**206,131,405**	144,509,405	40,747,500
Diluted	**253,741,076**	158,491,076	65,028,936
Weighted average common shares outstanding			
Basic	**153,717,257**	95,637,258	39,981,322
Diluted	**153,738,451**	96,128,549	Not available (2)
(Deficit)	**(39,848)**	(23,013)	(1,686)
Cash flow used in operations	**(2,847)**	(223)	(755)
Funds flow from (used in) operations(3)	**(5,123)**	107	(672)
Basic, per share(3)(4)	**($0.033)**	$0.001	($0.017)
Loss	**(16,835)**	(21,327)	(948)
Basic, per share(4)	**($0.110)**	($0.223)	($0.024)

(1) Oil pricing and production information is for period from the acquisition date of December 21, 2009 until December 31, 2009 from the Company's 10% interest in the N W Gemsa concession in Egypt.
(2) Diluted weighted average number of common shares outstanding, which is calculated with respect to daily stock trading prices not available until the Company's commons shares were listed on the Toronto Venture Exchange and stock prices became publicly available.
(3) See discussion concerning non-GAAP measures.
(4) Funds flow from operations per share and loss per share are not calculated on a diluted basis as they are anti-dilutive.

Business Environment

The Company's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark prices and foreign exchange rates:

	2009	2008
Dated Brent average oil price ($/Bbl)	**61.51**	96.99
U.S. / Canadian Dollar average exchange rate	**1.1415**	1.0671

The average price of Dated Brent oil was 37% lower in 2009 versus 2008. Financial market instability and a worldwide recession resulted in a steep decline in the price of Dated Brent oil in Q4-2008, with lower price levels continuing into 2009. Oil prices partially recovered in the latter half of 2009 and Dated Brent averaged $74.56/Bbl in Q4-2009 which was a 36% increase over the same period last year.

ACHIEVEMENTS

During the year the company attained the following milestones:

- During 2009 Sea Dragon adopted a strategy to seek out producing or near to production properties, primarily in Northern Africa, concentrating on locations in Egypt. During 2009 the Company evaluated several attractive opportunities in Egypt and sub-Saharan Africa. In August the Company entered into into a Sale and Purchase Agreement to acquire a ten percent working interest in the NW Gemsa concession of Egypt through the purchasing of the shares of Premier Oil Egypt (NW Gemsa) B.V. In December Sea Dragon negotiated a farm-in agreement to acquire a 50% working interest in the Kom Ombo concession in Egypt.

- On August 14, 2009 the Company entered into a Sale and Purchase Agreement with Premier Oil Overseas BV pursuant to which the Company acquired the entire issued capital of Premier Egypt (N W Gemsa) BV. The acquired company owns a 10% working interest in the on-shore North West Gemsa Concession ("NW Gemsa"), Eastern Desert, Egypt, which includes development and exploration rights. Pursuant to the terms of the sale and purchase agreement, the effective date was July 1, 2009 such that the Company is responsible for its share of all costs and capital expenditures after that date and is entitled to receive all of the revenue attributed to the working interest from July 1, 2009.

  The effective date of the acquisition is July 1, 2009. Sea Dragon is entitled to receive its 10% share of revenues from July 1, 2009 forward, and will be responsible for its 10% share of the capital and operating expenditures. During the period from July, 2009 until the completion date, Premier Egypt (NW Gemsa) received the revenues and paid the cash calls. On the completion date, Sea Dragon increased the payment made to Premier by the aggregate amount of any cash call payments made by Premier and other adjustments inc.luding interest from the July 1, 2009 until the completion date. The Company completed the acquisition on December 21, 2009 (the "completion date"). The final adjusted purchase price was $US14.76 million.

  The Company filed a Business Acquisition Report for this acquisition on April 12, 2010 which may be viewed on SEDAR.

- On November 6, 2009 the Company completed a private placement of 60,000,000 units at $0.25 per unit. Each unit consists of one common share and one half share purchase warrant. Each whole warrant is exercisable into one common share at a price of $0.50 for a period of 36 months from the closing date of the offer. Gross proceeds raised were $15.0 million and the net proceeds of $14,245 after all related costs have been deducted will be used to fund the acquisition of Premier Egypt (NW Gemsa) B.V.

- On December 31, 2009, the Company, through its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd. ("SD Kom Ombo"), entered into a farmout agreement ("the Farmout Agreement") with Dana Gas Egypt ("DGE") for the acquisition of a fifty (50%) percent participating interest in the Kom Ombo Concession ("the Kom Ombo acquisition"), Egypt for aggregate consideration of US$41,270, inclusive of DGE's share of costs incurred after June 30, 2009 in the amount of US$4,000 and subject to post-closing working capital adjustments, estimated to be approximately US$4,000. The effective date ("the Effective Date") of the Kom Ombo Acquisition is July 1, 2009. The CEO of Sea Dragon is also a member of the Board of Directors of Dana Gas.

- The Company has obtained the release of nearly all of the restrictions on its cash balances. During the third quarter the Letter of Guarantee provided to the Egyptian General Petroleum Corporation ("EGPC") for $US1.52 million was released. In the fourth quarter of 2009, the TransOcean Letter of Guarantee was reduced by $US3.8 million from $US4,000 million to $US 200 which was released in its entirety in January 2010. These Letters of Guarantee were secured by cash balances and Investment Deposits held by the Company's bank and were not available for general purposes. When the Letters of Guarantee are cancelled or reduced, the underlying cash deposits which were held by the bank to secure the Letters of Guarantee are released to the company's general cash balances and the restricted cash balance is reduced accordingly.

- In February 2009 the Company completed drilling of the North Dahab Prospect (the 5-X well), on the East Wadi Araba ("EWA") concession in Egypt. The well was drilled to a final total depth of 9,750' MD/8,644' TVD utilizing the GSF #103 rig and was fully evaluated by drilling two well bores from the same surface location in order to test Miocene and Pre-Miocene targets. The well encountered two separate reservoirs in the Kareem and Rudeis formations and hydrocarbons were encountered. As the hydrocarbons did not meet the Company's economic criteria the well was plugged and abandoned. The joint venture has decided to not pursue any additional exploration activities and instead it relinquished the Concession on July 17, 2009.

Subsequent to the End of the Year

- On January 22, 2010, the Company received payment of $US340 as the principal and accrued interest of the convertible debenture issued by Prevail Energy Inc.
- On January 25, 2010 the Company issued 22,730,000 special warrants ("the Special Warrant Offering") for gross proceeds of $12,501, less the Underwriters' fee of $625 and other expenses estimated to be $300. Each Special Warrant will entitle the holder thereof to receive, subject to adjustment in certain circumstances, one Common Share on the exercise of the Special Warrant for no additional consideration. As the Company was not qualified to issue the Common Shares under this offering by April 1, 2010, and instead was qualified to issue Common shares on April 16, 2010, 23,866,500 common shares were issued.
- On February 4, 2010 the Company signed an alliance agreement with Tanmia Petroleum Company ("TPC"), a Company incorporated in Egypt and owned one hundred percent by the Egyptian General Petroleum Corporation. Under the terms of this agreement, the Company and TPC will have the exclusive right to jointly appraise, develop and produce hydrocarbons from certain undeveloped and under-developed oil and natural gas opportunities located in the Arab Republic of Egypt.
- On January 28, 2010, pursuant to the terms of the Farmout Agreement for the acquisition of a 50% working interest in the Kom Ombo concession, SD Kom Ombo paid an initial instalment of US$10.0 million to DGE. Sea Dragon has been registered as the legal holder of a fifty (50%) percent participating interest in the Kom Ombo Concession. The initial instalment of US$10 million was funded through the net proceeds of the Special Warrant Offering. The balance of the farmout consideration was due on April 30, 2010 and accordingly on April 29, 2010 the Company remitted an additional $28,477 to DGE. An additional $1,000 has been set aside pending the results of an audit of concessions costs by Sea Dragon. The balance of the farmout consideration will be paid using a portion of the net proceeds of the April 2010 Common Share Offering, described below.

  In addition, SD Kom Ombo is required to pay US$4 million of DGE's share of costs incurred after the Effective Date and also provide a Letter of Guaranty of up to $US4.5 million. Under the terms of the Farmout Agreement, approximately US$16.2 million of the aggregate consideration may be fully cost recoverable by SD Kom Ombo out of future production proceeds generated from the Kom Ombo Concession.

  SD Kom Ombo is also required to deliver to DGE a Letter of Guaranty issued from a commercial bank, in the amount of US$4.5 million, to cover SD Kom Ombo's 50% share of the Letter of Guaranty issued by DGE to Ganoube El Wadi Holding Petroleum Company ("GANOPE"), in the amount of US$9 million. The Letter of Guaranty issued to GANOPE by DGE is required pursuant to the Kom Ombo Concession Agreement, to secure the maximum amount of expenditures that DGE has committed to spend under the third exploration phase of the Kom Ombo Concession.

  The Company filed a Business Acquisition Report for this acquisition dated April 12, 2010 which may be viewed on SEDAR.
- On March 26, 2010, Sea Dragon announced that it had entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase on a bought deal basis pursuant to a short form prospectus 142,500,000 common shares ("Common Shares") at a price of $0.40 per Common Share for gross proceeds to Sea Dragon of approximately $57 million ("the April 2010 Common Share Offering").

  The net proceeds of the Offering will be primarily used by the Company to fund the balance of the consideration owing by the Company pursuant to the Kom Ombo Acquisition and to fund the Company's capital expenditure program for 2010 in respect of Kom Ombo and NW Gemsa. This transaction closed on April 19, 2010.
- The Company's capital expenditure program for 2010 is approximately $US19,000, of which $US17,000 is anticipated to be spent on the development of the Kom Ombo Concession. The remainder, in the amount of $US2,000 (exclusive of operating expenditures), is anticipated to be spent on the development of the NW Gemsa Concession. The Company's capital expenditure program in respect of the Kom Ombo Concession includes, but is not limited to, a drilling program of up to 10 development wells expected to commence in May 2010, expanding production facilities to accommodate the possible increase in production from drilling development wells, the acquisition of additional 3-D and 2-D seismic and the drilling of exploration wells. With respect to the NW Gemsa Concession, the Company's capital expenditure program includes, but is not limited to, the drilling of up to 3 delineation wells, the drilling of an injector well and expanding the production facilities.

($US 000) **Activity**	**Kom Ombo**	**NW Gemsa**	**Total**
Seismic Acquisition and Reprocessing	3,000	-	3,000
Drilling Exploration Wells	1,500	500	2,000
Drilling Development Wells	10,000	1,000	11,000
Upgrading processing Facilities	2,500	500	3,000
Total	**17,000**	**2,000**	**19,000**

MAJOR TRANSACTIONS AFFECTING FINANCIAL RESULTS

Sea Dragon's financial results have been and will continue to be significantly affected by a number of transactions that occurred from the Company's inception to the date of this Management's Discussion and Analysis.

- On March 26, 2010, Sea Dragon announced that it had entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase on a bought deal basis pursuant to a short form prospectus 142,500,000 common shares ("Common Shares") at a price of $0.40 per Common Share for gross proceeds to Sea Dragon of approximately $57 million ("the April 2010 Common Share Offering").

  The net proceeds of the Offering will be primarily used by the Company to fund the balance of the consideration owing by the Company pursuant to the Kom Ombo Acquisition, to pay DGE's share of costs on the Kom Ombo Concession incurred after the Effective Date in the amount and to fund the Company's capital expenditure program for 2010 in respect of Kom Ombo and NW Gemsa. This transaction closed on April 19, 2010.

- On February 17, 2009 the Company announced that the Dahab North Prospect was drilled to a depth of 9,750 feet and was fully evaluated by drilling two well bores from the same surface location in order to test the Miocene and Pre-Miocene targets. Although the well encountered two separate reservoirs in the Kareem and Rudeis formation and hydrocarbons were encountered, the findings were determined to be uneconomic for further exploration or development and the well was plugged and abandoned. As a result the Company has written-off $31.460 million being the aggregate costs related to the acquisition of an interest in this concession and the direct and indirect drilling costs and shared administration costs related this concession. This operation completed its obligations under the Concession Agreement.

- On December 22, 2008 the Company acquired a $300 convertible debenture issued by Prevail Energy Inc., ("Prevail") a Canadian private corporation. Prevail owns a 20% interest in a joint venture that will explore and develop the Mengo, Kundji and Bindi fields in the Congo. The other joint venture operators are Societe Nationale des Petroles du Congo, Petro SA and Petroci SA. The debenture carried a stated interest rate of 15% p.a., matured on December 12, 2009 and was convertible into common shares of Prevail at $0.15 per share. Prevail repaid the debenture and accrued interest in January 2010.

- On July 17, 2008 the Company's shares were listed under the symbol SDX on the TSX Venture Exchange.

- On July 15, 2008, the Company successfully closed its initial public offering ("IPO") of common shares, raising gross proceeds of $35 million. A total of 58,333,334 common shares were issued at a price of $0.60 per share. Net proceeds of the offering were $30.9 million, after deduction of the agents' closing costs, legal, accounting and other professional fees of approximately $1.4 million and the agents' commission of approximately $2.1 million being 6% of the gross proceeds raised on the offering. Transaction costs also include the 3,500,000 compensation options granted to the agents upon closing of the IPO.

- On March 23, 2008, the Company entered into the share exchange agreement with EOH and shareholders of EOH (the "Vendors") to acquire all of the EOH common shares, thus acquiring EOH's 35% working interest in the East Wadi Araba ("EWA") Concession Agreement. This transaction closed on April 24, 2008. As consideration for the EOH shares, the Company issued 24 million common shares of the Company to the shareholders of EOH. As a condition of the acquisition, each of the Vendors agreed to enter into a voluntary escrow agreement (the "EOH Voluntary Escrow Agreement"), pursuant to which an aggregate of 19,600 common shares acquired by EOH and its shareholders were restricted from sale or transfer except upon the occurrence of certain events, and the occurrence of the earlier of: (i) the Company announcing the drilling results of its second exploratory well drilled on the EWA Concession; and (ii) July 31, 2009. This transaction brought the Company's interest in the EWA Concession Agreement to 75%. Under the terms of the Joint Operating Agreement, Sea Dragon undertook responsibility for 100% of the costs of the next two wells to be drilled at the concession.

OPERATING RESULTS

Loss from operations

The Company incurred a net loss of $16,835 ($0.11 per share) for the year 2009 compared to a net loss of $21,327 ($0.22) per share) for 2008. Factors contributing to the net loss include:

Selected Audited Financial Information for the Years Ended December 31, 2009 and Year ended December 31, 2008

$000	Year ended December 31, 2009	Year ended December 31, 2008
Revenues		
Oil sales, net of royalties and other	**190**	-
Expenses		
Operating	**39**	-
General and administrative	**4,198**	2,181
Foreign exchange (gain) loss	**1,239**	(1,859)
Stock based compensation	**417**	151
Interest	**125**	-
Impairment of oil and gas properties	**11,051**	20,409
Depletion and depreciation	**131**	2
Accretion of debentures	**-**	902
Loss before other items	**(17,010)**	(21,786)
Interest income	**206**	459
Income tax	**(31)**	-
	(16,835)	(21,327)

Revenues

Revenues represent the revenues earned by the Company on its 10% working interest in the NW Gemsa concession from December 21, 2009 until the year-end. The portion of December sales attributed to this period was 6,143 barrels. The price per barrel was $US72.39 ($C77.31) for net revenue per barrel of $US178 ($C190).

Operating costs

Operating costs, calculated on a monthly average basis, have ranged from $7 to over $10 per barrel during this initial period of production. The NW Gemsa concession began production in February 2009.

General and administrative expenses

Total general and administrative expenses for the year were $4,198 (2008-$2,181). The increase in expenses was primarily due to a number of factors including:

(i) Wages increased to $874 (2008 - $508) due to an increase in the number of staff positions relative to the prior period;
(ii) Consulting expenses increased to $1,061 (2008 - $328). The Company's focus on acquiring and developing resource properties has increased the use consultants for geological, geophysical and reservoir analysis to evaluate a number of project options.
(iii) Costs for travel expenses increased to $379 (2008 - $316) as management and consultants execute due diligence activities for development opportunities;
(iv) Quarterly maintenance fees related to two Letters of Guarantee required to be put up by the Company amounted to $168 during the period (2008 – $186);
(v) The Company opened a management office in Cairo incurring office rent and costs and local wages of $217 (2008 - $6).
(vi) Administrative costs and overhead amounts totalling $133 charged by the EWA concession joint venture are now charged directly to G&A. These costs had capitalized as oil and gas property costs prior to the relinquishment of the EWA concession.
(vii) Other expenses include professional and consulting fees and an allowance against an over due balance receivable.

Foreign exchange (gain) loss

The foreign exchange (gain) or loss relates to the cash and restricted cash held in $US as well as the effects of currency exchange rates on other monetary accounts including $US denominated receivables, acquisition deposit, accounts payables and accrued liabilities. The foreign exchange losses in 2009 arose from the decline in the US dollar relative to the Canadian dollar during the year to date applied to the $US working capital balances held by the Company. The Company held significant $US cash reserves to fund the security for the letters of guarantee through the year.

Stock based compensation

The Company granted 4,700,000 stock options in July 2008, 3,500,000 stock options in August 2009 and 1,750,000 in November 2009 under the Company's Stock Option Plan. These stock options vest over a three year period and the value of the options, calculated using the Black-Scholes method are amortized over the three year vesting period. The increase in the stock based compensation expense in 2009 of $266 primarily reflects the increase in the number of stock options issued and the vesting of the value over 2009 as compared to 2008.

Interest expenses

The Company borrowed US$5,860 ($C7,019) on January 13, 2009 in order to fund a cash call on the EWA concession at a time when the exchange rate to convert the Canadian funds to $US was unfavourable. The loan was subsequently repaid in May 2009 after the exchange rate improved. There were no similar expenses in the comparable period in 2008.

Impairment of oil and gas properties

During 2009 Sea Dragon assessed its exploration efforts on the EWA Concession in Egypt. Although hydrocarbons were found they were determined to be uneconomic. Management decided that given the lack of evidence of oil migration in the area and the fact it had fulfilled its obligation under the Concession Agreement, the Company decided that no further exploration on the block would be undertaken. Consequently the Company wrote off the costs except for unused drilling materials, direct and indirect, associated with the acquisition of and exploration in the EWA concession. The write-down is $11,051 for the year ended December 31, 2009 and $20,409 for the year ended December 31, 2008. These costs were originally capitalized as property and equipment assets under the full cost method of accounting for oil and gas assets.

Depletion and depreciation

The Company commenced earning revenue from oil and gas production on December 21, 2009 and consequently recorded a depletion expense of its oil and gas property costs.

Accretion of debentures

The accretion expense in 2008 was the amortization of the costs related to the conversion feature of the $7,500 Convertible Debenture that was converted to common shares concurrent with the closing of the Company's July 17, 2008 IPO.

National Instruments 51-101 Reserve reporting

Canadian National Instruments 51-101, Standards of Disclosure for Oil and Gas activities ("NI 51-101"), specifies how finding and development ("F & D") costs should be calculated. NI 51-101 requires that exploration and development costs incurred in the year along with the change in estimated future development costs be aggregated and then divided by the applicable reserve additions. The calculation specifically excludes the effects of acquisitions and dispositions on both reserves and costs.

Net expenditures to acquire proved plus probable reserves (1)

($000 except volumes)	**2009**	**2008**	**2007**
Total Capital expenditures (2)	2,300	0	0
Acquisitions (2)	12,500	0	0
Dispositions (2)	0	0	0
Net Change from Previous year's future capital (2)	14,760	0	0
Total reserve additions (bbls)	1,674,468	0	0

(1) As per Ryder Scott report published March 26, 2010 with an effective date of December 31, 2010. See NI-51-101 Reserve Reports filed on SEDAR on April 30, 2010

(2) Acquisition and development for Proved and Probable Reserves report effective date December 31, 2010

OPERATING RESULTS AND NETBACK

Netback information for the Company's 10% working interest in the NW Gemsa concession is provided for both the 10 days of legal ownership in 2009 commencing on December 21, 2009 and for the six month period commencing with the effective date of July 1, 2009.

The determination for the period commencing with July 1, 2009 (the "effective date") to December 31 2009 is provided because it may be more representative of the operations of the concession being based on six months of operations. However, the revenue and expenses from the effective date to the completion date (December 21, 2009) are not included in the operating results reporting on the consolidated statement of loss. Instead, they were included in the purchase price allocation for this property (See Note 4a to the December 31, 2009 audited consolidated financial statements).

	December 21 to 31, 2009		**July 1 to December 31, 2009**	
(000s; except per Bbl amounts)	**$**	**$/Bbl**	$	$/Bbl
Oil Sales ($)	**386**	**77.32**	5,250	75.23
Government royalty	**(196)**	**(39.27)**	(2,663)	(38.16)
Operating Expenses	**(39)**	**(7.85)**	(730)	(10.46)
Tax[1]	**(31)**	**(6.25)**	(561)	(8.03)
Net Back	**119**	**23.95**	1,296	18.58

[1] Pursuant to the terms of the NW Gemsa concession agreement, the corporate tax liability of the joint venture partners is paid by the EGPC out of the profit oil attributable to the EGPC and not by the Company. For accounting purposes the corporate taxes paid by the EGPC are treated as a benefit earned by the Company; the amount is included in oil revenues and deducted as an income tax expense.

MANAGEMENT STRATEGY AND OUTLOOK FOR 2010

Sea Dragon has developed a strategy to focus on acquiring interests in producing properties or properties that are either in or close to production. It is management's belief that oil assets today are undervalued reflecting the current economic downturn and this presents an opportunity to acquire production assets at favourable prices. This will give Sea Dragon a strong position as the economy turns more favourable. In the meantime the cash flow from producing assets will help to pay the operating costs and provide working capital for the Company. To these ends management has undertaken the following measures:

- The acquisition of interests in the NW Gemsa and the Kom Ombo resource properties will provide a foundation from which the Company will be able to grow. The NW Gemsa property generates a net profit before depletion and the Kom Ombo concession, which has significant exploration potential, provides an opportunity for a significant resource base.
- The Tanmia Alliance Agreement announced on March 8, 2010 will provide Sea Dragon the opportunity to have an exclusive opportunity to analyze and evaluate 11 different discovered prospects that are available for development and to negotiate concession agreement(s) on mutually satisfactory terms for those properties it wishes to develop.
- Management is pursuing other investment opportunities in producing or near-to-producing properties, primarily in Northern Africa. The reputation and experience of our board, executive and supporting consultants has opened discussions with other operators, concession holders and the government of Egypt that could lead to Sea Dragon taking an active role as investor and/or operator of other concessions. Each opportunity is evaluated for its economic potential, risks and Sea Dragon's capacity to undertake the project.
- Some investment projects may require additional sources of financing and the Company is considering all options such as partnership or joint venture financing on a project by project basis, issuance of common shares, or private funding that will allow the Company to move forward without undue dilution of its capital stock.
- Given the new focus on acquiring and developing resource properties, management is reviewing its operating and administrative costs for opportunities to reduce costs and realign them with this strategy.

2010 Production Outlook

Production for 2010 is expected to average around 2,200 Bopd representing a substantial increase over the 2009 average production of 614 Bopd. This target includes the growth in production from NW Gemsa and particularly the increased production through the 2010 acquisition of Kom Ombo and the aggressive drilling program planned for the Al Baraka Development lease in the Kom Ombo Concession.

2010 Funds Flow from Operations Outlook

This outlook was developed using the above production forecast and a Date Brent Oil price of $75.00/Bbl.

The Funds flow from Operations for 2010 is forecasted to be $362. This is due in part to higher than expected prices and higher production. One of the key factors is the higher production levels anticipated as a result of the increased drilling program in the Al Baraka development lease on the Kom Ombo block.

CASH FLOW AND CASH POSITION

Operating

Funds flow from operations was an outflow of $5,123 (2008 – inflow of $107) and was comprised of oil and gas sales net of royalties, operating costs and Egypt taxes on oil and gas of $119 (2008 – $Nil); G&A expenses $4,198 (2008 - $2,181) (discussed above); interest expense of $125 (2008 - Nil); unrealized foreign exchange loss of $1,239 (2008 – gain of $1,859); offset by interest revenue of $206 (2008 - $459).

Financing

Cash provided from financing activities for the year ended December 31, 2009 was an inflow of $14,717 (2008 – cash inflow of $31,582 from the IPO financing) from the November private placement and the exercise of warrants for common shares.

Investing

Cash used in investing activities for the year ended December 31, 2009 was $26,398 (2008 - $19,108). This increase was primarily due to:

(i) The acquisition of Premier and the share of capital costs subsequent to the acquisition of $15,749;
(ii) Expenditures of $11,853 for direct drilling expenses, and indirect, shared and administrative costs to date on the EWA concession in Egypt (2008 - $13,610);
(iii) $6,453 for the reduction of the joint venture's working capital balance at December 31, 2009 (2008 – increase $4,612;
(iv) The addition to the unrestricted cash balance of $9,756 by reducing the balance of funds on deposit to secure two Letters of Credit, described in "Liquidity" below (2008 – increase of $10,081); and
(v) On December 29, 2009 the Company transferred $US2,000 ($C 2,099) to its lawyer to be held in trust as a deposit on the acquisition of a 50% participating interest in the Kom Ombo (Block -2) Concession in Egypt.

Liquidity

At December 31, 2009 the Company had an unrestricted cash balance of $2,092 (2008 - $16,733), a restricted cash balance of $325 (2008 - $10,081) and working capital of $3,432 (2008 – working capital $12,175).

During the past year and up to the date of this report, the Company has made a concerted effort to release the restrictions on the restricted cash balances. The TransOcean Letter of Guarantee (Item a, below) was reduced from $US6.5 million to $US200 at December 31, 2009 and was released in full in January 2010. A minimum fund balance of $C115 secures the Company credit cards (item c, below). A letter of credit for $US1,522 ($C1,759) that was provided to the Egyptian General Petroleum Corporation as security for the financial commitment of the Exploration phase of the East Wadi Araba concession in Egypt was released on September 1, 2009. When the Letters of Guarantee are cancelled or reduced, the underlying deposits are released to the Company's general cash balances and the restricted cash balance is reduced accordingly.

Off-Balance Sheet Arrangements

The Company does not use off-balance sheet arrangements.

CAPITAL INVESTMENT IN PROPERTY & EQUIPMENT

The following table is the cumulative costs for property and equipment:

$000	**December 31, 2009**	December 31, 2008
Oil and gas properties, at cost	**46,398**	20,677
Furniture and fixtures	**140**	46
Accumulated depletion and depreciation	**(133)**	(2)
Impairment of oil and gas properties	**(31,393)**	(20,409)
	15,012	312

EWA Concession

During the year the Company spent $11,759 in exploration and related costs for the EWA Concession. The main activity was the completion of the off-shore 5-X well which completed the Company's obligation under the EWA concession. As the drilling results did not confirm the existence of economic volumes of oil or gas the joint venture decided not to pursue any further exploration and in July 2009, at the end of the exploration phase, the concession was relinquished. Accordingly all costs related to the EWA concession, other than residual drilling materials have been written off as an impairment charge. The drilling materials, recorded in the accounts at the lower of cost or fair value have a carrying cost of $844.

NW Gemsa

On December 21, 2009 Sea Dragon acquired all of the common shares of Premier Oil Egypt (NW Gemsa) B.V. ("POE") for cash consideration of $15,749 ($US 14,760). POE's main asset was a 10 percent working interest in the North West Gemsa oil and gas concession in the Arab Republic of Egypt. The Contractor (Joint Venture Partners) is in the third exploration phase of the NW Gemsa Concession Agreement which expires in June 2010. There are two development leases on the concession, the Al Amir and the Geyad, which will expire in 2029 unless a five year extension is granted. Future development costs of proved properties included in the depletion calculation for the year ended December 31, 2009 totaled $US2,982 (2008 - $Nil).

The effective date for the acquisition was July 1, 2010. Sea Dragon became responsible for its 10% share of the capital and operating costs incurred by the joint venture subsequent to this date and is entitled to its 10% share of the netrevenues earned by the property. The acquisition closed on December 21, 2009 which is the acquisition date for accounting purposes. The revenues, expenses and depletion for the ten days from the acquisition date to the year-end have been included in Sea Dragon's consolidated statement of loss.

For financial statement purposes the acquisition has been accounted for using the purchase method with Sea Dragon as the acquirer. As at the date of this report the Company was in the process of obtaining information primarily related to the income tax implications of the acquisition. Accordingly, in accordance with the provisions of Section 1582 of the CICA Handbook, the Company will release the allocation of the purchase price in the interim financial statements for the period in which it is able to complete the determination.

Ceiling Test

The Company performed an impairment (ceiling) test review at December 31, 2009 to assess the recoverable value of its oil and gas properties to assess that it does not exceed fair value. A write down was not required for the year ended December 31, 2009 (2008 – nil). The expected future prices of petroleum and natural gas are based on December 31, 2009 commodity price forecasts of the Company's independent reserve evaluators. The benchmark prices used in the ceiling test are as follows:

Year	Price ($US)
2010	76.50
2011	80.68
2012	82.77
2013	84.86
2014	86.94
2015	88.82
Increasing by 1.022% every year thereafter until 2024 where no further escalation is taken.	

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in one or more series. As at the date of this MD&A, the Company had 375,635,858 common shares issued and outstanding.

The following table sets forth the designation and number or principal amount of : (a) each class and series of voting or equity securities of the Company for which there are securities outstanding; (b) each class and series of securities of Sea Dragon for which there are securities outstanding if the securities are convertible into, or exercisable or exchangeable for, voting or equity securities of the Company; and (c) each class and series of voting or equity securities of the Company that are issuable on the conversion, exercise or exchange of outstanding securities the Company.

Designation	Authorized	**As at December 31, 2009 *(Audited)***	As at December 31, 2008 *(Audited)*
Total Common Shares	Unlimited	**206,131,405**	144,509,405
Total Options and Warrants	N/A	**47,409,671**	13,981,671

Note 1: Options and warrants expire as follows: (i) 4,868,921 on January 15, 2010 (ii) 2,790,750 on July 15, 2010 (iii) 4,500,000 on July 28, 2013 (iv) 30,000,000 on November 6, 2013; (v) 3,500,000 on August 24, 2014 and (vi) 1,750,000 on November 9, 2014.

Note 2: Subsequent to the year, and to the date of this MD&A, the following transactions involving the company's securities occurred:

a) On January 25, 2010 the Company completed a private placement of 22,730,000 special warrants at $0.55 per warrant. Each special warrant was automatically exercised for no additional consideration on the earliest of (a) the third business day after the date that a receipt is issued for the Final Prospectus qualifying the common shares to be issued and (b) the date that is four months and one day following the Closing. Gross proceeds raised were $12,501 and net proceeds of $11,576 will be used to fund a portion of the acquisition of a 50% participating interest in the Kom Ombo Concession. The Company qualified to issue Common shares on April 16, 2010, and as a result an additional 1,136,500 shares were issued.

b) On January 17, 2010, 3,278,643 warrants expired.

c) On March 1, 2010 the Company elected to accelerate the conversion of 2,148,750 warrants at $0.30 per share. These warrants provided the company with such an election should the closing share price for the Company average in excess of $0.40 per share for a 20 day period. As a result of this election a total of 2,477,000 warrants were exercised in 2010 and 925,000 warrants expired.

d) On March 26, 2010, Sea Dragon announced that it had entered into an agreement with a syndicate of underwriters pursuant to which the underwriters agreed to purchase on a bought deal basis pursuant to a short form prospectus 142,500,000 common shares ("Common Shares") at a price of $0.40 per Common Share for gross proceeds to Sea Dragon of approximately $57 million ("the April 2010 Common Share Offering").

The net proceeds of the Offering which closed on April 19, 2010 will be primarily used by the Company to fund the balance of the consideration owing by the Company pursuant to the Kom Ombo Acquisition, to pay DGE's share of costs on the Kom Ombo Concession incurred after the Effective Date and to fund the Company's capital expenditure program for 2010 in respect of Kom Ombo and NW Gemsa.

SUMMARY OF QUARTERLY RESULT

$000 except per share amounts	Total Assets	Working Capital	Cash Flow from Operations	Net Sales after Royalties	Net Income (Loss)	Net Income (Loss) per Share ($0.00)
Quarter ended:						
12/31/2009	**22,229**	**3,432**	**20**	**190**	**(1,814)**	**(0.01)**
09/30/2009	8,602	6,729	(1,109)	-	(2,215)	(0.01)
06/30/2009	10,639	1,839	(885)	-	(1,141)	(0.01)
03/31/2009	26,902	(9,386)	(873)	-	(11,665)	(0.08)
12/31/2008	29,814	12,175	1,913	-	(19,140)	(0.16)
09/30/2008	42,007	22,697	(1,786)	-	(648)	(0.00)
06/30/2008	11,437	(7,856)	(61)	-	(458)	(0.01)
03/31/2008	7,989	(7,351)	(289)	-	(1,081)	(0.03)
12/31/2007	8,189	(2,350)	(755)	-	(949)	(0.02)

Fourth quarter activities

During the fourth quarter, Sea Dragon:

- Completed a private placement and raised $14,245 net of issuance costs from the issue of 60,000,000 units. Each unit was comprised of one common share and one-half warrant.
- Completed the acquisition of all of the outstanding shares of Premier Oil Egypt (NW Gemsa) B.V. with a cash payment of $US14,760 ($C15,749) on December 21, 2009;
- Began to recognize oil revenue from the NW Gemsa concession working interest and recorded net revenues of $190, incurred operating costs of $39 and recorded a depletion and depreciation expense of $131;
- Recorded a net loss of $1,814 for the quarter which included G&A expenses of $1,532, a foreign exchange gain of $135, and a stock based compensation expense of $121 and a further write-down of EWA related expenditures of $319.
- Recorded an increase of unrestricted cash on hand of $123 being the net effect of a $4,961 use of fund for operations; received net funds of $14,666 from a private placement and the exercise of warrants; deposited $US2,000 ($C2,099) for the Kom Ombo acquisition and $US14,760 ($C15,749) to complete the POE acquisition and reduced its restricted cash balance by $4,634 from a substantial reduction to the TransOcean Letter of Guarantee.
- Entered into a farm-out agreement with DGE to acquire a 50% working interest in the Kom Ombo concession, Egypt and deposited $US2,000 with its lawyer pending remittance of the first instalment.

DEBT INSTRUMENTS

The Company has available a $US denominated revolving demand loan to a maximum of $US 6,000. The demand loan bears interest at the bank prime rate for $US borrowings plus 1.875%, is payable upon demand, and, when used, is secured by Treasury Deposits or Guaranteed Investment Certificates in Canadian dollars plus a 5% margin to account for weekly exchange rate fluctuations. The balance outstanding as at December 31, 2009 is Nil.

COMMITMENTS

a. The Company has entered into an agreement to lease office space in Calgary, Alberta beginning on November 1, 2008 and ending on January 30, 2011. A payment has been made for the last month's rent and is booked as deposit. The monthly rent is $12.

b. The Company has entered into a lease for office space in Cairo for its operations in Egypt. The one year lease expires on August 31, 2010 and is payable in 3 month instalments. Although the last three months has been paid as a deposit and at year end there were two months for which rent was prepaid, it was not booked as neither a deposit or as prepaid. This is due to the nature of the business in Egypt; it is unlikely recoverable in any circumstance.

c. On December 30, 2009 the Company transferred $US2,000 to its lawyer to be held in trust as a deposit on the acquisition of a 50% participating interest in the Kom Ombo (Block -2) Concession in Egypt. Total consideration to be paid is approximately $45 million US (net of working capital adjustments) and is to be paid with a $US5,000 deposit due on January 5, 2010; and $US8,000 deposit on January 11, 2010; and the remainder to be paid by April 30, 2010. The Company remitted $US10,000 on January 28, 2010 upon receipt of a Deed of Assignment and it remitted a further $US28,477 on April 29, 2010 as partial payment of the final remittance. The remainder will be remitted upon completion of an audit of the costs of the Joint Venture by Sea Dragon. The Company is also required to provide a Letter of Guaranty in an amount not to exceed $US 4.5 million.

CONTINGENCY

On April 16, 2009, a statement of claim (the "Claim") was filed in the province of Alberta against the Company in which the Plaintiffs allege, among other things, that the actions of the Company contributed to the Plaintiffs not being recognized for a 25% interest in the EWA Concession Agreement. They seek injunctions and damages of $32 million as compensation.

The Company believes this Claim to be without merit and will vigorously defend itself against these actions. As an assessment of the likelihood of loss is indeterminable at this time, no provision has been made in the 2009 annual financial statements for this claim. Any such loss will be recognized in the period it becomes likely to occur.

CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets, Section 3064:

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, ("Section 3064") replacing Section 3062, *Goodwill and other intangible assets* ("Section 3062") and Section 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with the new Section 3064. Section 3064 will be applicable to consolidated financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009.

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Also in February 2008, the CICA amended portions of Section 1000, "*Financial Statement Concepts*", which the CICA concluded permitted deferral of costs that did not meet the definition of an asset. The amendments apply to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Upon adoption of S.3064 and the amendments to Section 1000 on January 1, 2009, capitalized amounts that no longer meet the definition of an asset will be expensed retrospectively. The adoption of this standard did not have an impact on the consolidated financial statements.

Credit Risk and Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospect application. The application of this EIC did not have a material effect on the Company's consolidated financial statements.

Business Combinations

In December 2008, the CICA issued Section 1582, *Business Combinations*, which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company has decided to follow an early adoption of this policy. On October 1, 2009 the Company adopted this Section on accounting for its acquisition as described in Note 4 of the December 31, 2009 audited consolidated financial statements.

Non-Controlling Interests

In December 2008, the CICA issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which along with Section 1603 replace existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. These standards currently do not impact the Company as it does not have any subsidiaries. On October 1, 2009 the Company adopted this Section. Adoption of this guidance had no impact as subsidiaries are wholly owned.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changover to International Financial Reporting Standards ("IFRS") from GAAP will be required for publicly accountable enterprises' interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. The transition from current GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations. The Company has appointed internal staff to lead the IFRS conversion project who began attending CICA and other training program related to the IFRS conversion. At this time Sea Dragon is evaluating the impact of the differences between the IFRS and GAAP and assessing the need for amendment to existing accounting policies and reporting controls in order to comply with IFRS.

During 2009, the Company developed an initial plan for the implementation and conversion to IFRS which will be further developed in detail during 2010. As part of the plan, it will be required to prepare a transition balance sheet as at December 31, 2009 which will be representative of the opening balance sheet as at January 1, 2010, enabling comparative information for financial reporting in 2011.

The following IFRS standards are expected to have the most significant impact on Sea Dragon.

- IFRS 1 – First time adoption of IFRS
- IFRS 2 – Share based payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
- IAS 36 – Impairment of assets
- IAS 37 – Provisions, contingent liabilities and contingent assets
- IAS 21 – Effects of changes in foreign exchange rates

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, particularly the recoverability of accounts receivable and acquisitions costs of property and equipment. Estimates and assumptions also affect the recording of liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Due to various factors affecting future costs and operations, actual results could differ from management's best estimates.

PROPERTY AND EQUIPMENT

In accordance with CICA Accounting Guideline 16, the Company accounts for exploration and development activities under the full-cost method. All costs associated with oil and gas property acquisition, exploration and development are capitalized on a country-by-country cost centre basis pending determination of the feasibility of the project. Costs incurred include license acquisition costs, materials and drilling costs for both productive and non productive wells, geological and geophysical consulting fees and expenses related to exploration activities. If an oil and gas property development project is successful, the related expenditures will be depleted and amortized over the estimated life of the reserves on a unit of production basis. Where a license or deed of assignment is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs will be charged to earnings during the period.

Depreciation, Depletion and Impairment

Capitalized costs within each country will be depleted and depreciated on the unit-of-production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, oil and gas reserves and production will be converted to equivalent volumes of petroleum based upon relative energy content. Depletion and depreciation is calculated using the capitalized costs, including estimated asset retirement costs, plus the estimated future costs to be incurred in developing proved reserves, net of estimated salvage value. Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred.

Furniture and fixtures are depreciated at declining balance rates of 20 to 30 percent.

The Company will apply a "ceiling test" annually to ensure that capitalized costs do not exceed total estimated future net revenues from the production of proved reserves less site restoration costs and income taxes directly related to future production. Any reduction in value as a result of the ceiling test will be charged to operations as an impairment of oil and gas properties.

Cost centres in the exploration stage are assessed at each reporting date to determine whether it is likely that the net costs, in aggregate, may be recovered in the future. Costs considered unlikely to be recovered are charged to earnings during the period. For the year ended December 31, 2009, an impairment charge of $11,051 (2008 – $20,409) was recorded against the EWA Concession.

FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash, restricted cash and acquisition deposit are classified as held-for-trading and are measured at fair value which equals the carrying value and any gains or losses are recognized in earnings in the period they occur. Accounts receivable are classified as loans and receivables which are measured at amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. The Investment is classified as held-for-trading which is measured at fair value.

The Company expenses transaction costs related to the acquisition or issuance of held-for-trading financial instruments in the period in which the costs are incurred. The Company adds transaction costs related to the acquisition or issuance of all other categories of financial instruments.

BUSINESS RISK ASSESSMENT

There are a number of inherent business risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact to the Company.

Foreign Investments

All of the Company's oil investments are located outside of Canada. These investments are subject to the risks associated with foreign investment including tax increases, royalty increases, re-negotiation of contracts, currency exchange fluctuations and political uncertainty. The jurisdiction in which the Company operates, Egypt, has a well established fiscal regime and there are some improved fiscal terms to encourage investments. The functional currency in the primary operating area is US dollars. Sea Dragon expects to be paid in US dollars when it commences production.

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes.

Competition

The Company operates in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including U.S.-based and foreign companies doing business in Egypt. The Company faces intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in seeking oil and gas exploration licences and production licences in Egypt; and acquiring desirable producing properties or new leases for future exploration.

The Company believes it has significant in-country relationships within the business community and government authorities needed to obtain cooperation to execute projects. The Company also has excellent relationships with its working interest partners in the EWA, NW Gemsa and Kom Ombo concessions.

Commodity Price Risk

When the Company has producing resource properties and commences to sell crude oil or natural gas, its revenues will be significantly affected by the prevailing world commodity prices.

Commodity prices will also be a factor in the Company's efforts to raise additional capital. Management takes the availability of investment capital into consideration as it evaluates acquisition opportunities so as to minimize the possibility of becoming illiquid by acquiring assets that may require more capital than the Company can provide.

Disclosure Controls and Procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the year ended December 31, 2009. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at December 31, 2009.