SEA DRAGON ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2010

The following management's discussion and analysis (the "MD&A") dated May 28, 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 three months ended March 31, 2010 and March 31, 2009. This MD&A should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2010 and the audited consolidated financial statements and MD&A for the year ended December 31, 2009. 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 and government royalties. 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.

Cash flow from operations

Cash flow from operations is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. Cash flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that cash 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. Cash 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)	**March 31, 2010**	March 31, 2009
Cash (used in) operating activities	**(1,548)**	(729)
Less: Changes in non-cash working capital	**(1,576)**	(38)
Cash flow from (used in) operations	**28**	(691)

SEA DRAGON'S BUSINESS

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 market uncertainty, which present an opportunity to acquire production assets at favorable prices. This will give Sea Dragon a strong position as the economy turns more favorable. In the meantime the cash flow from producing assets will help to pay the operating costs and provide working capital for the Company.

In April 2010 the Company concluded the acquisition of a 50% working interest in the Kom Ombo concession, Egypt which provides the Company with immediate operating cash flow from existing production as well as a substantial development potential to meet the Company's target of exiting 2010 at 3,000 bopd. Additionally the asset has exploration potential as the Concession has huge acreage (11,500 sq. km) with opportunities for additional discoveries.

The Company commenced the 30 well development drilling program in May 2010 and is looking to drill up to 10 development wells this year. The proceeds from the recent private equity raise in April 2010, which was over-subscribed, have provided the company with the balance of the purchase price as well as sufficient working capital to continue the aggressive development programs for Kom Ombo as well as NW Gemsa. The Company has no debt at this time.

NW Gemsa continues to make significant discoveries with two more wells added to production during the last quarter, being Geyad 2, testing at 3,850 bopd, and later, Al Amir 5X, testing at 6,150 bopd. The Company owns a 10% working interest in NW Gemsa. When the Company acquired this interest, total production was at 2,250 bopd and has risen to approximately 7,855 bopd. Given the continuing drilling programs as well as upgrades to the facilities the target of 10,000 bopd for total field production by the end of 2010 should be achievable.

The Company is also pursuing a number of other development opportunities in Egypt as well as other countries both in the Middle East and other areas. The recent signing of the Tanmia Alliance Agreement has given the Company an exclusive right to examine and bid on several potential properties in Egypt which it is currently analyzing.

Our reported operating results are from the NW Gemsa concession where total and daily average production was approximately 7,855 bopd gross (786 bopd net to the Company), and reserves, based on the December 31, 2010 Ryder Scott report were 1.6 million barrels net to the Company (proved and probable). Although for accounting purposes the Kom Ombo working interest has not been included in the financial statements, the daily average production was 700 bopd gross (350 bopd net to the Company). Had it been included, the average daily production would have been 8,555 bopd gross, 1,135 bopd net to the Company.

ACHIEVEMENTS DURING AND SUBSEQUENT TO THE FIRST QUARTER 2010

During the first quarter of 2010 the company attained the following milestones:

- On January 20, 2010 the Company announced that Geyad 2 well in NW Gemsa tested 3,850 bopd oil and 4.62 MMscfd of solution gas. On February 4, 2010 Geyad 2 was put into production at 1,475 bopd oil.
- 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 $236 in other expenses. Each special warrant entitled the holder thereof to receive one common share on the exercise of the special warrant for no additional consideration, subject to an adjustment whereby if the Company was not qualified to issue the common shares under this offering by April 1, 2010, each warrant would be exercisable for 1.05 common shares for no additional consideration. The Company qualified to issue the common shares on April 13, 2010 and as a result 23,866,500 common shares were issued upon the exercise of the special warrants on April 13, 2010.
- On January 29, 2010, Sea Dragon paid an initial instalment of $US10,000 to Dana Gas Egypt ("DGE") pursuant to the terms of a farmout agreement ("the Farmout Agreement") with DGE that it had entered into on December 31, 2009, through its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd., ("SD Kom Ombo"). Under the Farmout

Agreement SD Kom Ombo is to acquire a fifty (50%) percent participating interest in the Kom Ombo Concession, Egypt for aggregate consideration of US$45,000 (subject to working capital adjustments). The CEO of the Sea Dragon is an independent director of Dana Gas PJSC (the parent company of Dana Gas Egypt). The effective date of the Kom Ombo Acquisition is July 1, 2009. Sea Dragon Energy (Kom Ombo) Ltd. received the Deed of Assignment for the 50% participating interest on January 28, 2010.

The initial deposit on January 29, 2010 was funded through the net proceeds of the Special Warrant Offering. The balance of the farmout consideration was paid by a remittance of $US28,477 to DGE on April 29, 2010 and a final remittance of $US2,089 made on May 19, 2010. The remittances in April and May were 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 $US4,000 of DGE's share of costs incurred after the Effective Date and also provide a Letter of Guarantee of up to $US4.5 million. Under the terms of the Farmout Agreement, approximately $US16.2 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.

For accounting purposes, the acquisition of the Kom Ombo working interest is considered to have occurred on April 29, 2010, when the consideration for the acquisition was substantially paid. At March 31, 2010 Sea Dragon owed the remainder consideration of $30.5 million, which was funded from the proceeds of the April 2010 Offering, described below. As at March 31, 2010 the Company could not be certain that it would have the funds to complete the acquisition and, consequently, the recognition of the acquisition was deferred until April 29, 2010. Accordingly, these financial statements for the quarter ended March 31, 2010 do not include revenues from the sale of crude oil from the Kom Ombo joint venture, nor expenses for operations or overhead costs nor capital expenditures. Any net remittances during the quarter have been added to the acquisition deposit and will adjust the acquisition price and allocation when it is reported in the second quarter.

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

- 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 March 8, 2010 the Company announced Al Amir 5x well on the NW Gemsa concession tested 6,150 bopd and 6.9 MMscfd solution gas on a full choke. On March 14, 2010 the well went into production at 1,500 bopd oil.
- On March 26, 2010 the Company announced it had obtained an independent engineering report published by Ryder Scott effective December 31, 2009 on its interest in NW Gemsa. According to the Ryder Scott report, the Company's share of P1 and P2 barrels for NW Gemsa stood at 1,674,46 bbls of oil with a value of $US20,773 net to the Company with a 10% discount.
- On April 19, 2010, Sea Dragon completed an issuance of 142,500,000 Common Shares ("the April 2010 Common Share Offering") on a bought deal basis pursuant to a short form prospectus at a price of $0.40 per common share for gross proceeds of approximately $57,000 less the Underwriters fee of $2,850 and other expenses of the Offering estimated to be $375. The net proceeds of the Offering will primarily be used by the Company to fund the balance of consideration of approximately $US34,500 for the acquisition of a fifty (50%) percent participating interest in the Kom Ombo concession, described above.
- On May 8, 2010 Sea Dragon commenced spudding Al Baraka 6, the first of its 30 well program in Kom Ombo. Sea Dragon intends to drill up to 10 development wells during 2010.

Selected quarterly information	**2010**	2009			
$000, except share and per share information	**1st Qtr**	4th Qtr	3rd Qtr	2ndt Qtr	1st Qtr
Average Daily Production volumes (Bopd)	**786**	614	-	-	-
Average Price ($US/Bopd)	**75.94**	72.39	-	-	-
Oil production, gross (bbls)	**70,699**	6,143	-	-	-
Cash balance at end of period	**5,283**	2,092	1,969	2,118	5,885
Working capital (deficiency)	**4,272**	3,432	6,729	1,839	(9,386)

Restricted cash and deposits	**115**	325	4,442	6,613	18,678
Total assets	**35,637**	22,229	8,602	10,639	26,902

Selected quarterly information *(continued)*	**2010**	2009			
$000, except share and per share information	**1st Qtr**	4th Qtr	3rd Qtr	2ndt Qtr	1st Qtr
Shareholders' equity	**32,005**	21,168	8,196	10,237	11,286
Share capital	**56,087**	54,942	44,522	44,444	44,444
Common shares outstanding					
Basic	**208,429,858**	206,131,405	144,702,905	144,509,405	144,509,405
Diluted	**274,231,108**	253,607,742	161,991,076	158,491,076	158,491,076
Weighted average common shares outstanding					
Basic	**225,337,118**	153,717,257	144,517,039	144,509,405	144,509,405
Diluted	**227,040,167**	153,738,451	158,978,255	158,491,076	158,491,076
Retained earnings (Deficit)	**(41,684)**	(39,848)	(38,033)	(35,818)	(34,678)
Cash flow from operations[1]	**28**	(2,309)	(1,567)	(1,028)	(836)
Basic, per share[1][2]	**(0.00)**	(0.01)	(0.01)	(0.01)	($0.01)
Capital expenditures	**8,939**	802	668	564	17,098
Net loss	**(1,836)**	(1,814)	(2,215)	(1,141)	(11,665)
Basic, per share[2]	**(0.01)**	(0.01)	(0.01)	(0.01)	($0.08)

(1) See discussion concerning non-GAAP measures
(2) Cash flow from operations per share and Net income (loss) per share are not calculated on a diluted basis as they are anti-dilutive.

Selected Unaudited Financial Information for the Three months Ended March 31, 2010 and 2009 and year ended December 31, 2009

$000	**Three months ended March 31, 2010**	Three months ended March 31, 2009	Year ended December 31, 2009
Revenues			
Production revenues, net of royalties	**1,790**	-	190
Operating expenses	**370**	-	39
Net	**1,420**	-	151
Expenses			
General and administrative			
Employees, officers and directors	**429**	296	1,496
Professional fees	**305**	233	439
Travel and promotion	**216**	106	379
Letter of Guarantee expense	-	81	168
Interest expense	-	87	125
Other	**189**	105	1,716
	1,139	908	4,323
Foreign exchange (gain) loss	**(314)**	144	1,239
Stock based compensation	**185**	82	417
Additional shares	**470**	-	-
Depletion and depreciation	**1,224**	4	131
Impairment of oil and gas properties	-	10,599	11,051
	(2,704)	(11,737)	(17,161)
Net loss before interest and income taxes	**(1,284)**	(11,737)	(17,010)
Interest income	**4**	72	206
Income tax expense	**(556)**	-	31
Net income (loss)	**(1,836)**	(11,665)	(16,835)

OPERATING RESULTS

Loss from operations

The Company incurred a net loss of $1,836 ($0.01 per share) for the first quarter of 2010 compared to a net loss of $11,665 ($0.08 per share) for the same period in 2009. Factors contributing to the net loss include:

Revenues

Revenues represent the net revenues after deducting government royalties earned by Sea Dragon on its 10% working interest in the NW Gemsa concession. Gross sales from the Company's working interest was 65,830 barrels at an average price per barrel of $US76.95 ($C78.18). There were no revenues from oil and gas sales in the first quarter of 2009.

Revenues for the year ended December 31, 2009 were earned only from the acquisition date of 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 from the NW Gemsa property averaged $5.95 per barrel during the first quarter of 2010. Operating costs on this concession, calculated on a monthly average basis, ranged from $7 to over $10 per barrel during the last six months of 2009, being the period subsequent to the effective date of the working interest. These costs were higher than normally expected as production came on stream (the NW Gemsa concession began production in February 2009) and reduced on a per barrel basis as the average daily production increased in the first quarter 2010.

General and administrative expenses

Total general and administrative expenses for the first three months of 2010 were $1,139 (2009 - $908). The increase in expenses was primarily due to a number of factors including:

(i) Expenses for employees, officers and directors increased by $133 over the same period of 2009 with the addition of three senior officers through 2009;
(ii) Professional fees for the first quarter of 2010 increased by $72 over the same period of 2009 primarily due to accounting fees for the review of the quarterly interim financial statements and legal and audit fees related to the acquisition of the Kom Ombo working interest and filing of documents and reports of the acquisition of Sea Dragon Energy (NW Gemsa) B.V. and the 50% working interest in the Kom Ombo concession;
(iii) Costs for travel expenses during the three months ended March 31, 2010 increased by $110 over the same period of 2009 due to promotional tours to support the Company and the Special Warrants offering and increased meeting and negotiation in Egypt;
(iv) Quarterly maintenance fees related to two Letters of Guarantee required to be put up by the Company amounted to $81 in 2009. No comparable costs were incurred in the first quarter of 2010 as the final Letter of Guarantee was released in early January;
(v) There were no interest expenses in the first quarter of 2010 as the demand loan has not been used since May 2009.
(vi) The main components of the $84 increase in other expenditures include an increase of $64 in office and support expenses arising from the increased responsibilities and presence of the Cairo office, $16 in increased securities commission and exchange filing fees, $11 increase in telecommunications, offset by reductions in rent and office expenses following the closure of the Vancouver office.

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, accounts payables and accrued liabilities. The foreign exchange gain occurred because the $US exchange rate at January 29, 2010 when the Kom Ombo instalment payment of $US 10,000 was remitted exceeded the exchange rates in effect when the $US funds were acquired.

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 for the first three months of 2010 as compared to the similar period in 2009 reflects the number of stock options that were issued subsequent to the first quarter of 2009 and are now being amortized over the vesting period.

Additional shares

On January 25, 2010 the Company issued 22,730,000 special warrants for gross proceeds of $12,501, less the underwriters' fee of $625 and $236 in other expenses. Each special warrant entitled the holder thereof to receive one common share on the exercise of the special warrant for no additional consideration, subject to an adjustment whereby if the Company was not qualified to issue the common shares under this offering by April 1, 2010, each warrant would be exercisable for 1.05 common shares ("the additional shares") for no additional consideration. The Company qualified to issue the common shares on April 13, 2010 and as a result 23,866,500 common shares were issued upon the exercise of the special warrants on April 13, 2010. At March 31, 2010 the Company recognized as an obligation and included in accounts payable and accrued liabilities, and expense, $470,000 for the estimated fair value of additional common shares expected to be issued on the exercise of the special warrants.

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 during the first quarter of 2010 and the last ten days of 2009. The depletion expense during the first quarter of 2010 of $1,214 was based on production of 65,830 barrels for a per barrel expense of $18.46.

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,

No additional capital expenditures were incurred during the first quarter of 2010 in respect of the EWA property and no impairment expense was recorded.

Income tax expense

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.

Netback [1]

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).

	January 1 to March 31, 2010		**July 1 to December 31, 2009**	
(000s, except per Bbl amounts)	**$**	**$/Bbl**	$	$/Bbl
Oil Sales ($)	**5,060**	**76.86**	5,250	75.23
Government royalty	**(3,270)**	**(49.67)**	(2,663)	(38.16)
Operating Expenses	**(370)**	**(5.61)**	(730)	(10.46)
Net Back[2]	**1,420**	**21.57**	1,857	23.91

(1) See Non-GAAP Measures

(2) The netback for Q1 is lower because the company was not able to realize full cost oil recovery. The NW Gemsa concession provides 70% of oil production is designated as Profit Oil and is split with 77% going to the State and 23% accruing to the Contractor. Up to 30% of oil production is available for recovery by the contractor of costs incurred in developing the concession. ("the cost recovery pool").

100% of Operating costs are added to the cost recovery pool in the period in which they are incurred. Capital costs for exploration or development, however, are amortized over a five year period such that only 5% of the capital costs incurred in a particular quarter are added to the cost recovery pool each quarter. If the available costs in the cost recovery pool are less than 30% of the production, the shortfall, referred to as excess cost oil, reverts 100% to the State. It is possible that in the initial years of exploration of development, because only a portion of the capital costs are added to the cost recovery pool, the available costs for recovery are less than the maximum of 30% of total production, creating an excess oil allocation.

As a result in the three month period ended March 31, 2010, only 50% of the cost oil available was realized by the company, resulting in a lower netback for the period.

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:

	2010	2009			
	Q1	Q4	Q3	Q2	Q1
Dated Brent average oil price ($US/Bbl)	76.10	74.56	68.27	58.79	44.40
U.S. / Canadian Dollar average exchange rate	1.016	1.056	1.098	1.167	1.245

The price of Dated Brent oil averaged $76.10/Bbl in Q1-2010, an increase of 71% from the Q1-2009 price of $44.40/Bbl.

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 markets uncertainty, which present an opportunity to acquire production assets at favourable prices. It is expected that this will give Sea Dragon a strong position as the economy turns more favourable. In the meantime the Company anticipates 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 of reserves, production and cash flow from which the Company will be able to grow. The NW Gemsa property generates a net profit before depletion and further development and exploration potential. The Kom Ombo concession, which the Company believes has significant exploration potential beyond the ongoing field production and development, provides an opportunity for a significant resource base.
- The Tanmia Alliance Agreement announced on March 8, 2010 is expected to provide Sea Dragon the opportunity to have an exclusive opportunity to analyze and evaluate 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 Africa and the Middle-East. 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 strategic impact, technical merits and economic potential.
- 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.
- The Company's expected 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 appraisal wells. The first of these appraisal wells was spudded on May 8th 2010. Additional planned budget expenditures include 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 appraisal 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**

CASH FLOW AND CASH POSITION

Operating Activities

Cash flow from operations [1] during the quarter was an inflow of $28 (2009 – outflow of $691) and was comprised of oil and gas sales net of royalties, operating costs and Egypt taxes on oil and gas of $864 (2009 – $Nil); G&A expenses $1,139 (2009 - $908) (discussed above); realized foreign exchange gain of $299 (2009 – gain of $145); offset by interest revenue of $4 (2009 - $72).

From this, the cash out flow from operating activities consisted of an increase in accounts receivable owed by the Egyptian General Petroleum Corporation, the purchaser of the crude oil sales from the NW Gemsa concession and owned by the Government of Egypt, and payment of and reduction to the corporate accounts payable.

(1) See Non-GAAP Measures

Financing Activities

Cash provided from financing activities for the three months ended March 31, 2010 was an inflow of $12,304 comprised of $11,640 from the Special Warrant Offering, net of costs, $848 from the exercise of 2,298,458 compensation and shareholder warrants, less share issuance costs related to the common share issuance that closed in April 2010.

There were no equity financings during the same period of 2009. The source of funds from financing activities during the first quarter of 2009 was the borrowing of $7,268 under the line of credit which was used to remit a cash call payment to the EWA joint venture.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2010 was $7,580 (2009 - $17,098). Expenditures included approximately $1,711 for the Company's share of investment in the NW Gemsa, less $250 received for the sale of excess drilling materials acquired for the EWA concession; and the addition of $10,086 to the Kom Ombo deposit. Cash was received from the disposition of the Prevail convertible debenture following its maturity ($300) and the release of the final amount of the TransOcean letter of Guarantee ($210).

Liquidity

At March 31, 2010 the Company had an unrestricted cash balance of $5,283 (December 31, 2009 - $2,092), a restricted cash balance of $115 (December 31, 2009 - $325) and working capital of $4,272 (December 31, 2009 - $3,432). As at the date of this MD&A the Company had an unrestricted cash balance of approximately $23,300 and working capital of 26,650.

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	**March 31, 2010**	December 31, 2009
Oil and gas properties, at cost	**48,053**	46,398
Furniture and equipment (net)	**110**	140
Accumulated depletion	**(1,321)**	(133)
Impairment of oil and gas properties	**(31,593)**	(31,393)
	15,249	15,012

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% 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 three months ended March 31, 2010 totaled $US1,389 (2009 - US2,982).

The effective date for the acquisition was July 1, 2009. 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 net revenues 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.

EWA Concession

During the first quarter of 2009, 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.

No additional capital expenditures were incurred during the first quarter of 2010, and no additional impairment expenses was recorded.

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 March 31, 2010**	As at March 31, 2009
Total Common Shares	Unlimited	**208,429,858**	144,509,405
Total Options and Warrants [1]	N/A	**41,934,750**	13,981,671
Special warrants [2]	N/A	**23,866,500**	-

[1] Options and warrants expire as follows: (i) 2,184,750 on July 15, 2010 (ii) 4,500,000 on July 28, 2013 (iii) 30,000,000 on November 6, 2013; (iv) 3,500,000 on August 24, 2014 and (v) 1,750,000 on November 9, 2014.

[2] On January 25, 2010 the Company issued 22,730,000 special warrants for gross proceeds of $12,501, less the underwriters' fee of $625 and $236 in other expenses. Each special warrant entitled the holder thereof to receive one common share on the exercise of the special warrant for no additional consideration, subject to an adjustment whereby if the Company was not qualified to issue the common shares under this offering by April 1, 2010, each warrant would be exercisable for 1.05 common shares ("the additional shares") for no additional consideration. The Company qualified to issue the common shares on April 13, 2010 and as a result 23,866,500 common shares were issued upon the exercise of the special warrants on April 13, 2010.

On April 19, 2010, Sea Dragon completed an issuance of 142,500,000 Common Shares ("the April 2010 Common Share Offering") on a bought deal basis pursuant to a short form prospectus at a price of $0.40 per Common Share for gross proceeds of approximately $57,000 less the Underwriters fee of $2,850 and other expenses of the Offering estimated to be $375. The net proceeds of the Offering will be primarily used by the Company to fund the balance of consideration of approximately $US34,500 for the acquisition of a fifty (50%) percent participating interest in the Kom Ombo concession, described above.

SUMMARY OF QUARTERLY RESULT

$000 except per share amounts	Total Assets	Working Capital	Cash Flow used by Operating Activities	Net Sales after Royalties	Net Income (Loss)	Net Income (Loss) per Share ($0.00)
Quarter ended:						
03/31/2010	**35,637**	**4,272**	**(1,548)**	**1,790**	**(1,836)**	**(0.01)**
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	-	(21,327)	(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)

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 March 31, 2010 is Nil.

COMMITMENTS

On December 30, 2009 the Company transferred $US2,000 ($CDN2,099) to its lawyer to be held in trust as a deposit for the farm-out agreement of a 50% participating interest in the Kom Ombo (Block -2) Concession in Egypt (Note 13a). Total consideration is approximately $US45,000 net of working capital adjustments. Proceeds from the January 2010 special warrants issue funded an additional $US8,000 deposit and the combined deposits of $US10,000 were remitted to the vendor on January 28, 2010. The Company remitted a further $US28,477 on April 29, 2010 and another remittance of $US2,089 made on May 19, 2010 using funds raised by the common share offering that closed on April 19, 2010.

CONTINGENCY

On April 16, 2010, 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

a) 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 Section 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. Sea Dragon elected to adopt this Section on October 1, 2009.

b) International Financial Reporting Standards

On February 13, 2008 the Canadian Accounting Standards Board has confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canada's current GAAP for all publicly accountable profit-oriented enterprises.

The Company has determined that a significant impact of IFRS conversion is to Property and Equipment. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase.

The Company currently follows full cost accounting as prescribed in Accounting Guideline 16, *Oil and Gas Accounting – Full Cost*. Conversion to IFRS may have a significant impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the development phases. In addition, the level at which impairment tests are performed and the impairment testing methodology will differ under IFRS. Another area that may be affected by IFRS is the currency in which reporting is based. One of the fundamental requirements of IFRS is that when a reporting entity prepares consolidated financial statements each individual entity included in those statements must determine its own functional currency and measure its own results and financial position in that currency. IFRS provides several guidelines to aid in determining the functional currency of each subsidiary. The impact of this has not yet been determined. IFRS conversion will also result in other impacts, some of which may be significant in nature. The Company is in the process of evaluating the impact on the Company's consolidated financial statements.

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 acquisition 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 applies a "ceiling test" annually and at interim periods when events or circumstances may cause impairment since the end of the previous fiscal year 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.

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 will be paid in US dollars on its oil and gas sales.

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 quarter ended March 31, 2010. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109 as at March 31, 2010.