SEA DRAGON ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010

Basis of Presentation

The following management's discussion and analysis (the "MD&A") dated August 26, 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 the three and six months ended June 30, 2010. This MD&A should be read in conjunction with the unaudited consolidated financial statements for the period ended June 30, 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 materially from those expected. See "Forward Looking Statements", below.

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

Additional information related to the Company can be found on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are for the purpose of providing information about Management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project"or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A include, but are not limited to, statements or information with respect to: business strategy and objectives; development plans; exploration plans; acquisition and disposition plans and the timing thereof; reserve quantities and the discounted present value of future net cash flows from such reserves; future production levels; capital expenditures; net revenue; operating and other costs; royalty rates and taxes.

Forward-looking statements or information are based on a number of factors and assumptions that have been used to develop such statements and information but may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions that may be identified in this MD&A, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the countries in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions that may have been used.

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. The risks and uncertainties that may cause actual results to differ materially from the forward-looking statements or information include, among other things: the ability of Management to execute its business plan; general economic and business conditions; the risk of war or instability affecting countries or states in which the Company operates; the risks of the oil and natural gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas; market demand; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; risks and uncertainties involving geology of oil and natural gas deposits; the uncertainty of reserves estimates and reserves life; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew production sharing concession;

potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to production (including decline rates), costs and expenses; fluctuations in oil and natural gas prices, foreign currency, exchange, and interest rates; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of oil revenue payments; health, safety and environmental risks; risks associated with existing and potential future law suits and regulatory actions against the Company; uncertainties as to the availability and cost of financing; and financial risks affecting the value of the Company's investments. Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties.

Non-GAAP Measures

The MD&A contains the terms "funds from operations", and "netbacks" which are not recognized measures under Canadian GAAP. The Company uses these measures to help evaluate its performance.

Funds from operations

Funds from operations is a non-GAAP measure that represents funds generated from operating activities before changes in non-cash working capital. Funds from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management uses funds from operations to analyze performance and considers it an indication of the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Sea Dragon's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP.

Reconciliation of Cash Flow from Operations and Funds Flow from Operations

($000)	**Three months ended June 30**		**Six months ended June 30**	
	2010	2009	2010	2009
Cash used in operating activities	**(3,360)**	(885)	(4,909)	(1,760)
Less: Changes in non-cash working capital	**(4,049)**	143	(5,625)	104
Funds flow/from (used in) operations	**689**	(1,028)	716	(1,864)

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. Management considers netbacks an important measure as it demonstrates the Company's profitability relative to current commodity prices. Netback may not be comparable to similar measures used by other companies.

SEA DRAGON’S BUSINESS, STRATEGY AND OUTLOOK

Sea Dragon’s Business

Sea Dragon is engaged in exploring, developing and operating oil and gas properties, focusing primarily on North Africa, West Africa and the Middle-East. Currently the Company’s activities are concentrated in Egypt, where the Company has interests in two large concessions with short and long-term potential. The Company’s strategy calls for gaining entry into other countries that offer significant potential and opportunities that would enhance the Company's growth within a reasonable timeframe. The Company intends to create shareholder value through significant and rapid growth in production volumes, cash flow and earnings.

Strategy

Increase shareholder value through rapid growth in production, reserves and cash flow in the Company’s two existing concessions. A fast-tracked, aggressive development program is in place. In addition, the Company’s two current concessions offer world-class, long-term exploration opportunities with significant oil-in-place resource potential. Sea Dragon is also continuing to search for, identify and evaluate new and economically attractive investment.

Acquire interests with significant upside potential in discovered, but undeveloped oil and natural gas assets. The Company’s growth strategy is based on working with established companies and identifying and negotiating the acquisition of assets with high growth potential. To date, Sea Dragon has acquired interests in two development concessions in Egypt: the NW Gemsa Concession (“NW Gemsa”) and the Kom Ombo Concession (“Kom Ombo”). Each concession offers current production, development drilling, and longer-term exploration opportunities creating upside for significant reserves growth.

Lever significant in-country political and business relationships to execute projects. The Company’s relationships and previous track record of success in Egypt facilitated the signing of an Alliance Agreement with Tanmia Petroleum Company, a company owned 100 percent by the Egyptian General Petroleum Company in March 2010. This alliance gives Sea Dragon the exclusive right to acquire, appraise, develop and produce hydrocarbons from certain undeveloped and under-developed oil and gas opportunities. The Company is currently evaluating these opportunities.

Outlook

The Company’s expected capital expenditure program, subject to joint venture approval, for the remainder of 2010 is approximately $9.0 to $12.0 million of which $7.0 - $9.0 million is anticipated to be spent on the development of Kom Ombo. The remainder, approximately $2.0 to $3.0 million, is anticipated to be spent on the development of NW Gemsa.

The Company’s capital expenditure program for Kom Ombo includes, but is not limited to, a drilling program of up to six additional wells, subject to availability of equipment, joint venture partner approval and government approval. Additional planned expenditures include expanding existing production facilities to accommodate the possible increase in production from the drilling of wells, the acquisition of additional seismic, and a fracturing program.

With respect to NW Gemsa, the Company’s capital expenditure program includes, but is not limited to, the drilling of an appraisal well, the drilling of an injector well and expanding the production facilities.

The Company is revising the 2010 exit rate from 2,500 bbl/d to 2,000 – 2,200 bbl/d due to delays in obtaining government approvals for commissioning and mobilizing a second rig, drilling of additional wells, and starting a fracturing campaign. The reduction in exit guidance does not decrease the potential of the Kom Ombo concession. The Company remains excited about the numerous opportunities within the concession and is looking forward to drilling the first exploration well within the next few months.

OPERATIONAL AND FINANCIAL HIGHLIGHTS:

In accordance with Canadian industry practice, production volumes and revenues are reported on a Company interest basis, before deduction of royalties.

$000's, except per unit amounts	Prior Quarter (1)	Three months ended June 30 2010	Three months ended June 30 2009	Six months ended June 30 2010	Six months ended June 30 2009
OPERATIONAL					
Oil sales	5,060	**7,329**	-	**12,388**	-
Royalties	(3,270)	**(3,941)**	-	**(7,211)**	-
Operating costs	(370)	**(1,015)**	-	**(1,385)**	-
Netback	1,420	**2,373**		**3,792**	
Oil production (bbl/d)	786	**1,032**	-	**910**	-
Brent oil price (C$/bbl)	79.50	**81.58**	-	**80.11**	-
Canadian to US dollar (US$)	0.961	**0.973**	-	**0.967**	-
US$ to Canadian dollar ($)	1.041	**1.028**	-	**1.035**	-
Realized oil price (C$/bbl)	76.86	**78.04**	-	**75.21**	-
Royalties (C$/bbl)	49.67	**41.96**	-	**43.78**	-
Operating costs (C$/bbl)	5.62	**10.81**	-	**8.41**	-
Netback (C$/bbl)	21.57	**25.27**	-	**23.02**	-
Property and equipment expenditures	1,461	**1,234**	620	**2,694**	11,751
Property and equipment acquisition	-	**45,731**	-	**45,731**	-

(1) Three months ended March 31, 2010

Production

Production for the three and six months ended June 30, 2010 averaged 1,032 bbl/d and 910 bbl/d compared to no production in the comparative periods and 786 bbl/d in the three months ended March 31, 2010 (the "Prior Quarter"). The significant increase in production is due to the Company's acquisition of Kom Ombo in April 2010 and the successful drilling of 4 wells (1.2 net) during the six months ended June 30, 2010. At the time of acquisition of NW Gemsa, the concession was producing 2,200 bbl/d (220 bbl/d net) with current production being in excess of 9,000 bbl/d (900 bbl/d net).

Pricing

The Company is exposed to the volatility in commodity price markets and changes in foreign exchange rate between the Canadian and US dollar for pricing of all its production volumes. The above table outlines the changes in the various benchmark commodity prices and economic parameters which affect the prices received for the Company's production.

For the three and six months ended June 30, 2010 the Company received $78.04 per barrel and $75.21 per barrel compared to the Brent price of $81.58 per barrel and $80.11 per barrel. The Company receives a $3-5/bbl discount to Brent due to the quality of the oil produced.

Oil prices continued to remain volatile during the three months ended June 30, 2010 (the "Quarter"), with Brent ranging from a low of US$67.18 to a high of US$88.09. Globally, oil demand is recovering from the lows over the past several years due in part to strong economic growth from developing countries such as India and China. Considering current inventory levels being above the historical average, surplus capacity in OPEC countries, fears of a "double-dip" recession in the US and Europe, albeit a decreasing fear, Sea Dragon expects prices to remain volatile throughout the remainder of 2010 and into the first half of 2011.

Royalties

($000's)	Prior Quarter	Three months ended June 30 2010	2009	Six months ended June 30 2010	2009
Royalties	3,270	**3,941**	-	**7,211**	-
Per bbl	49.67	**41.96**	-	**43.78**	-
Royalties as a percentage of revenue (%)	65	**54**	-	**58**	-

Royalties fluctuate in Egypt due to changes in the cost oil, whereby the Concession agreements allow for recovery of operating costs and capital costs through a reduction in government take as highlighted below.

Concession	Sea Dragons WI (1)	Cost oil to Contractor (2)	Capital cost recovered (2)	Operating cost recovered (2)	Excess oil to Contractor (3)	Profit oil to Contractor (4)
NW Gemsa	10%	30%	5 years	Immediate	Nil	16.1%
Kom Ombo	50%	40%	4 years	Immediate	21%	21%

(1) WI denotes the Company's Working interest

(2) Cost oil is the amount of oil revenue that is attributable to Sea Dragon and their joint venture partners (the "Contractor") subject to the limitation of the cost recovery pool. Oil revenue, up to a specified percentage is available for recovery by the Contractor for costs incurred in exploring and developing the concession. Operating costs and capital costs are added to a cost recovery pool (the "Cost Pool"). Capital costs for exploration and development expenditures are amortized into the Cost Pool over a specified number of years with operating costs being added to the Cost Pool as incurred.

(3) If the available costs in the Cost Pool are less than the cost oil attributable to the Contractor, the shortfall, referred to as excess cost oil ("Excess Oil"), reverts 100% to the State in NW Gemsa and 21 percent to the Contractor in Kom Ombo.

(4) Profit oil is the amount of oil revenue that is attributable to Contractor

Operating costs

($000's)	Prior Quarter	Three months ended June 30 2010	2009	Six months ended June 30 2010	2009
Operating costs	**370**	**1,015**	-	**1,385**	-
Per bbl	**5.62**	**10.81**	-	**8.41**	-

Operating costs for the three and six months ended were $1.0 million ($10.81 per bbl) and $1.4 million ($8.41 per bbl) respectively. The increase in operating costs is due to the purchase of Kom Ombo during the Quarter. The Al Baraka field within Kom Ombo, which is currently being developed, has a large percentage of fixed costs and as production increases from the field the cost per bbl is expected to decrease.

Current taxes

($000's)	Prior Quarter	Three months ended June 30 2010	2009	Six months ended June 30 2010	2009
Current taxes	556	**843**	-	**1,399**	-
Per bbl	8.45	**8.98**	-	**8.49**	-
Taxes as a percentage of revenue(%)	11	**12**	-	**11**	-

Pursuant to the terms of NW Gemsa and Kom Ombo concession agreements, the corporate tax liability of the joint venture partners is paid by the Egyptian General Petroleum Corporation (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 net oil revenues and deducted as an income tax expense.

Capital expenditures

		Three months ended		Six months ended	
	Prior	June 30		June 30	
($000's)	Quarter	2010	2009	2010	2009
Property and equipment expenditures	**1,461**	**1,234**	620	**2,694**	11,751
Property and equipment acquisition	**-**	**45,731**	-	**45,731**	-

During the six months ended June 30, the Company closed the acquisition of Kom Ombo for approximately $45.7 million, drilled 2 wells (0.2 net) in NW Gemsa and 2 wells (1.0 net) in Kom Ombo with a 100 percent success rate and commenced a 475 km seismic program over a portion of the Kom Ombo concession.

Kom Ombo Concession

On April 28, 2010, the Company closed the acquisition of a fifty percent (50%) working interest in the Kom Ombo concession located approximately 1,000 km south of Cairo on the West Bank of the Nile River for a total purchase price of approximately $45.7 million. The Kom Ombo concession is a large exploration block (approximately 11,500 Sq. Km) which contains the Al-Baraka Development Lease and several prospects and leads with significant undiscovered resources.

NW Gemsa Concession

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 $15.7 million. POE's principle asset was a 10% working interest in the North West Gemsa concession. Sea Dragon and its joint venture partners (the "Contractor") are in the third exploration phase of the NW Gemsa Concession Agreement which expired in June 2010. The Contractor has received a six month extension to allow for the drilling of Ola #1 exploration well. 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.

The effective date for the NW Gemsa 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. The acquisition closed on December 21, 2009 which is the acquisition date for accounting purposes.

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 2009 Sea Dragon assessed its exploration efforts on the East Wadi Araba Concession (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 EWA 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 six months ended June 30, 2010 on the EWA property.

The following table is the cumulative costs for property and equipment on all of the Company's oil and gas properties:

($000's)	June 30, 2010	December 31, 2009
Oil and gas properties, at cost	**94,755**	46,398
Furniture and equipment (net)	**161**	140
Accumulated depletion and depreciation	**(3,169)**	(133)
Impairment of oil and gas properties	**(31,393)**	(31,393)
Net book value	**60,354**	15,012

General and administrative costs

($000's)	Prior Quarter [1]	Three months ended June 30 2010	Three months ended June 30 2009	% Change	Six months ended June 30 2010	Six months ended June 30 2009	% Change
Wages and Employee				161	**991**	426	133
Costs	416	**576**	220				
Consultants	318	**402**	296	36	**720**	620	16
Travel	216	**374**	88	327	**590**	193	205
Office expense	71	**82**	84	(2)	**153**	155	(1)
Foreign offices	81	**196**	137	44	**278**	155	80
Finance/banking	37	**(327)**	96	(441)	**(290)**	281	(203)
Total	1,139	**1,303**	921	41	**2,442**	1,830	33

General and administrative ("G&A") costs for the three and six months ended June 30, 2010 were $1.3 million and $2.4 million respectively compared to $0.9 million and $1.8 million in the comparative periods in the prior year. Overall, G&A costs increased due to higher employee and consultant costs, increased travel and the opening of an office in Paris, France. The cost increases are commensurate with increased activity and the hiring of additional personnel in the Quarter. During the Quarter, the Company recorded a non-recurring reduction in G&A for approximately $0.4 relating to a receivable which previous was written off and collected in full during the Quarter.

Sea Dragon believes it has assembled the necessary team to create an intermediate, international oil and gas producer with the ability to significantly increase reserves and production.

Stock based compensation

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. The non-cash compensation expense for the three months and six months ended June 30, 2010, was $0.2 million and $0.4 million respectively, compared to $0.1 million and $0.2 million in the comparative periods in the prior year.

The following table summarizes the assumptions used in the Black-Scholes option pricing model:

($000's)	Three months ended June 30 2010	Three months ended June 30 2009	Six months ended June 30 2010	Six months ended June 30 2009
Stock based compensation	**180**	92	**365**	174
Fair value per option	**$0.30**	-	**$0.30**	-
Assumptions				
Exercise price	**$0.35**		**$0.35**	
Annual dividend per share	**$nil**	-	**$nil**	-
Risk-free interest rate	**2.28%**	-	**2.28%**	-
Expected life	**5 years**	-	**5 years**	-
Expected volatility	**129%**	-	**129%**	-
Forfeiture rate	**2%**	-	**2%**	-

Depletion & depreciation ("D&D")

($000's)	Prior Quarter	Three months ended June 30 2010	Three months ended June 30 2009	Six months ended June 30 2010	Six months ended June 30 2009
DD&A	1,224	**1,861**	4	**3,084**	7
Per bbl	18.59	**19.82**	-	**18.72**	-

For the three and six months ended June 30, 2010, depletion and depreciation ("D&D") was $1.9 million and $3.1 million respectively, compared to $nil in the comparative periods in the prior year. The increase in D&D is due to production from NW Gemsa and Kom Ombo. In the comparative periods, the Company did not have any production volumes.

Net loss

For the three and six months ended June 30, 2010, the Company recorded a net loss of $1.4 million and $3.3 million respectively, compared to a net loss of $1.1 million and $12.8 million in the comparative periods in the prior year. Earnings for the three and six months ended were adversely affected by non-cash items such as depletion, depreciation, loss and stock-based compensation. Earnings for the six months ended June 30, 2009 were adversely impacted by a $10.6 million impairment charge relating to the EWA Concession.

LIQUIDITY AND CAPITAL RESOURCES

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. The common shares of Sea Dragon trade on the TSX Venture Exchange under the symbol SDX.

		Three months ended June 30		Six months ended June 30	
Trading statistics	Prior Quarter	2010	2009	2010	2009
High	$0.66	$0.53	$0.14	$0.66	$0.22
Low	$0.42	$0.29	$0.10	$0.29	$0.07
Average volume	880,235	1,556,024	190,125	1,220,833	261,635

The following table summarizes the outstanding common shares, warrants and options as at December 31, 2009, June 30, 2010 and August 26, 2010

Outstanding as at:	August 26, 2010	June 30, 2010	December 31, 2009
Common shares	375,959,358	375,704,358	206,131,405
Warrants	30,000,000	30,255,000	37,659,671
Options	12,900,000	11,200,000	9,816,666

The following table summarizes the outstanding warrants as at June 30, 2010:

Expiration date:	Number	Exercise price
July 15, 2010	255,000	$0.20
November 6, 2012	30,000,000	$0.50

The following table summarizes the outstanding options as at June 30, 2010:

Remaining contract life:	Number	Weighted average Exercise price
3.1 years	4,500,000	$0.60
4.2 year	3,500,000	$0.18
4.4 years	1,750,000	$0.50
4.9 years	1,450,000	$0.35

Capital Resources

As at June 30, 2010 the Company had working capital of approximately $24.7 million including cash on hand of $22.5 million. The Company expects to fund its 2010 and 2011 capital program from funds from operations and cash on hand. The use of new financing, either debt or equity, may also be utilized to finance other opportunities to expand the Company's asset base.

As at June 30, 2010, the Company had $5.0 million in accounts receivable outstanding compared to $2.4 million as at December 31, 2009. Approximately $4.3 million is due from the Egyptian Government for oil sales and is expected to be received in the normal course of operations.

As evidence below, Sea Dragon continued to have access to equity markets in late 2009 and early 2010 in spite of the difficult economic conditions and financial market volatility:

- On January 25, 2010 the Company issued 22,730,000 special warrants for gross proceeds of $12.5 million, less the underwriters' fee of $0.6 million and $0.2 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 the 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 April 19, 2010, Sea Dragon completed an issuance of 142,500,000 common shares 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 $57.0 million less the underwriters' fee of $2.9 million and other expenses of $0.4 million.

The following table outlines the Company's sources and uses of cash for the three and six months ended June 30, 2010 and 2009.

($000's)	Prior Quarter	Three months ended June 30 2010	Three months ended June 30 2009	Six months ended June 30 2010	Six months ended June 30 2009
Sources:					
Funds from operations	28	**689**	-	**716**	-
Proceeds from issuance of shares	12,304	**54,139**	-	**66,443**	-
Deposit and restricted cash	-	**12,160**	11,710	**2,284**	3,217
Convertible debenture	300	**-**	-	**300**	-
Effects of foreign exchange effects on cash held in foreign currency	15	**-**	-	**-**	-
Demand loan	-	**-**	-	**-**	111
Changes in non-cash working capital	-	**-**	143	**-**	104
Changes in non-cash investing working capital	3,457	**1,294**	-	**4,751**	-
	16,104	**68,282**	11,853	**74,494**	3,432
Uses:					
Funds used in operations	-	**-**	1,028	**-**	1,864
Capital expenditures	1,461	**46,965**	564	**48,425**	11,751
Funds used in investing	-		7,119	**-**	4,432
Deposit and restricted cash	9,876	**-**	-	**-**	-
Demand Loan	-	**-**	6,908	**-**	-
Effects of foreign exchange effects on cash held in foreign currency	-	**82**	-	**67**	-
Changes in non-cash working capital	1,576	**4,049**	-	**5,625**	-
	12,913	**51,096**	15,619	**54,117**	18,047
Increase (decrease)in cash	3,191	**17,186**	(3,766)	**20,377**	(14,615)
Cash at beginning of period	2,092	**5,283**	5,884	**2,092**	16,733
Cash at end of period	5,283	**22,469**	2,118	**22,469**	2,118

SUMMARY OF QUARTERLY RESULTS

FISCAL YEAR	2010		2009				2008		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL ($000's)									
Cash, beginning of period	**5,283**	2,092	16,733	2,118	5,884	16,733	22,657	19	285
Cash, end of period	**22,469**	5,283	2,092	1,969	2,118	5,885	16,733	22,657	19
Working capital/(deficiency)	**24,683**	4,272	3,432	6,729	1,839	(9,386)	12,175	22,697	(7,856)
Funds from/(used in) operations	**689**	28	(2,310)	(1567)	(1,028)	(836)	(474)	(575)	(433)
per share	**-**	-	-	-	(0.01)	-	-	-	(0.01)
Net loss	**(1,434)**	(1,836)	(1,814)	(2,215)	(1,141)	(11,665)	(21,327)	(648)	(458)
per share	**(0.01)**	(0.01)	(0.01)	(0.02)	(0.01)	(0.08)	(0.16)	(0.00)	(0.01)
Capital expenditures	**(46,965)**	(1,460)	156	(668)	(620)	(11,131)	(8,602)	(2,575)	(96)
Total assets	**88,004**	35,637	22,229	8,602	10,639	26,902	29,814	42,007	11,437
Shareholders' equity	**85,177**	32,005	21,168	8,196	10,237	11,286	22,868	41,947	3,526
Common shares outstanding (000's)	**375,704**	208,430	206,131	144,509	144,509	144,509	144,509	144,509	64,748
Warrants outstanding (000's)	**30,255**	32,185	37,660	9,088	9,282	9,282	9,282	9,282	5,782
OPERATIONAL									
Oil production (bbl/d)	**1,032**	786	617	-	-	-	-	-	-
Brent oil price ($/bbl)	**81.58**	79.50	78.36						
Realized oil price ($/bbl)	**78.04**	76.86	77.32	-	-	-	-	-	-
Royalties ($/bbl)	**41.96**	49.67	39.27	-	-	-	-	-	-
Operating costs ($/bbl)	**10.81**	5.62	7.85	-	-	-	-	-	-
Netback ($/bbl)	**25.27**	21.57	30.20	-	-	-	-	-	-

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Contractual obligation and commitments

Pursuant to concession agreements in Egypt, the Company is required to perform certain minimum exploration activities that include the drilling of exploration wells. These obligations have not been provided for in the financial statements.

The Company has office lease commitments in Calgary, Paris and Cairo.

The following are the anticipated payments under the contracts:

($000)	Concession agreements	Office Leases	Total
2010	2,750	144	2,894
2011	1,000	93	1,093
2012	1,000	41	1,041

Contingencies

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. The plaintiffs seek injunctions and damages of $32.0 million as compensation.

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

DEBT INSTRUMENTS

The Company has available a US dollar (US$) denominated revolving demand loan to a maximum of US$ 6.0 million. 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 funds plus a 5% margin to account for weekly exchange rate fluctuations. The balance outstanding as at June 30, 2010 is $nil.

CHANGES IN ACCOUNTING POLICIES

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. 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:

- 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.

Income Taxes

The determination of the Company's income and other tax assets or liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax asset or liability may differ significantly from that estimated and recorded.

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.

Political Risk

Sea Dragon operates in Egypt which has different political, economic and social systems than in North America and which subject the Company to a number of risks not within the control of the Company. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, corruption and the risk of actions by terrorist or insurgent groups, changes in laws and policies governing operations of foreign-based companies, economic and legal sanctions and other uncertainties arising from foreign governments, any of which could adversely affect the economics of exploration or development projects.

Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. Depending on the future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favorable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If the revenues from the Company's reserves decrease as a result of lower oil prices or otherwise, it will impact its ability to expend the necessary capital to replace its reserves or to maintain its production. If cash flow from operations are not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt, equity, or asset dispositions will be available to meet these requirements or available on acceptable terms. In addition, cash flow is influenced by factors which the Company cannot control, such as commodity prices, exchange rates, interest rates and changes to existing government regulations and tax and royalty policies.

Exploration, Development and Production

The long-term success of Sea Dragon will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. These risks are mitigated by Sea Dragon through the use of skilled staff, focusing exploration efforts in areas in which the Company has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods, and controlling costs to maximize returns. Despite these efforts, oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that Sea Dragon will be able to locate satisfactory properties for acquisition or participation or that the Company's expenditures on future exploration will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to accurately project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, infrastructure and operating costs. In addition, drilling hazards and/or environmental damage could greatly increase the costs of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-in of wells resulting from extreme weather conditions or natural disasters, insufficient transportation capacity or other geological and mechanical conditions. As well, approved activities may be subject to limited access windows or deadlines which may cause delays or additional costs. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The nature of oil and gas operations exposes Sea Dragon to risks normally incident to the operation and development of oil and natural gas properties, including encountering unexpected formations or pressures, blow-outs, and fires, all of which could result in personal injuries, loss of life and damage to the property of the Company and others. The Company has both safety and environmental policies in place to protect its operators and employees, as well as to meet the regulatory requirements in those areas where it operates. In addition, the Company has liability insurance policies in place, in such amounts as it considers adequate. The Company will not be fully insured against all of these risks, nor are all such risks insurable.

Oil and Natural Gas Prices

The price of oil and natural gas will fluctuate based on factors beyond the Company's control. These factors include demand for oil and natural gas, market fluctuations, the stability of regional state-owned monopolies to control gas prices, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas. Fluctuations in price will have a positive or negative effect on the revenue to be received by the Company.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids, reserves and cash flows to be derived there from, including many factors beyond the Company's control. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows there from are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected there from prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

The Company's actual future net cash flows as estimated by independent reserve engineers will be affected by many factors which include, but are not limited to: actual production levels; supply and demand for oil and natural gas; curtailments or increases in consumption by oil and natural gas purchasers; changes in governmental regulation; taxation changes; the value of the Canadian dollar and US$; and the impact of inflation on costs.

Actual production and cash flows derived there from will vary from the estimates contained in the applicable engineering reports. The reserve reports are based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived there from contained in the engineering reports will be reduced to the extent that such activities do not achieve the level of success assumed in the calculations.

Reliance on Operators and Key Employees

To the extent the Company is not the operator of its oil and natural gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely is unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company has no key-man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Government Regulations

The Company may be subject to various laws, regulations, regulatory actions and court decisions that can have negative effects on the Company. Changes in the regulatory environment imposed upon Sea Dragon could adversely affect the ability of the Company to attain its corporate objectives. The current exploration, development and production activities of the Company require certain permits and licenses from governmental agencies and such operations are, and will be, governed by laws and regulations governing exploration, development and production, labor laws, waste disposal, land use, safety, and other matters. There can be no assurance that all licenses and permits that the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulation would not have an adverse effect on any project that the Company may undertake.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in Egypt. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines, and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company or its subsidiaries, as the case may be, becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Prior to drilling, the Company or the operator will obtain insurance in accordance with industry standards to address certain of these risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company or its subsidiaries, as the case may be, may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The occurrence of a significant event that the Company may not be fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position.

Regulatory Matters

The Company's operations will be subject to a variety of federal and provincial or state laws and regulations, including income tax laws and laws and regulations relating to the protection of the environment. The Company's operations may require licenses from various governmental authorities and there can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out planned exploration and development projects.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damages to persons or property and possible environmental damage.

Although the Company has obtained liability insurance in an amount it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Repatriation of earnings

Currently there are no restrictions on the repatriation from Egypt of earnings to foreign entities. However, there can be no assurance those restrictions on repatriation of earnings from Egypt will not be imposed in the future.

Disruptions in Production

Other factors affecting the production and sale of oil and gas that could result in decreases in profitability include: (i) expiration or termination of permits or licenses, or sales price redeterminations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor difficulties; (v) changes in the market and general economic conditions, equipment replacement or repair, fires, civil unrest or other unexpected geological conditions that can have a significant impact on operating results.

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. 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.

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 June 30, 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 June 30, 2010.