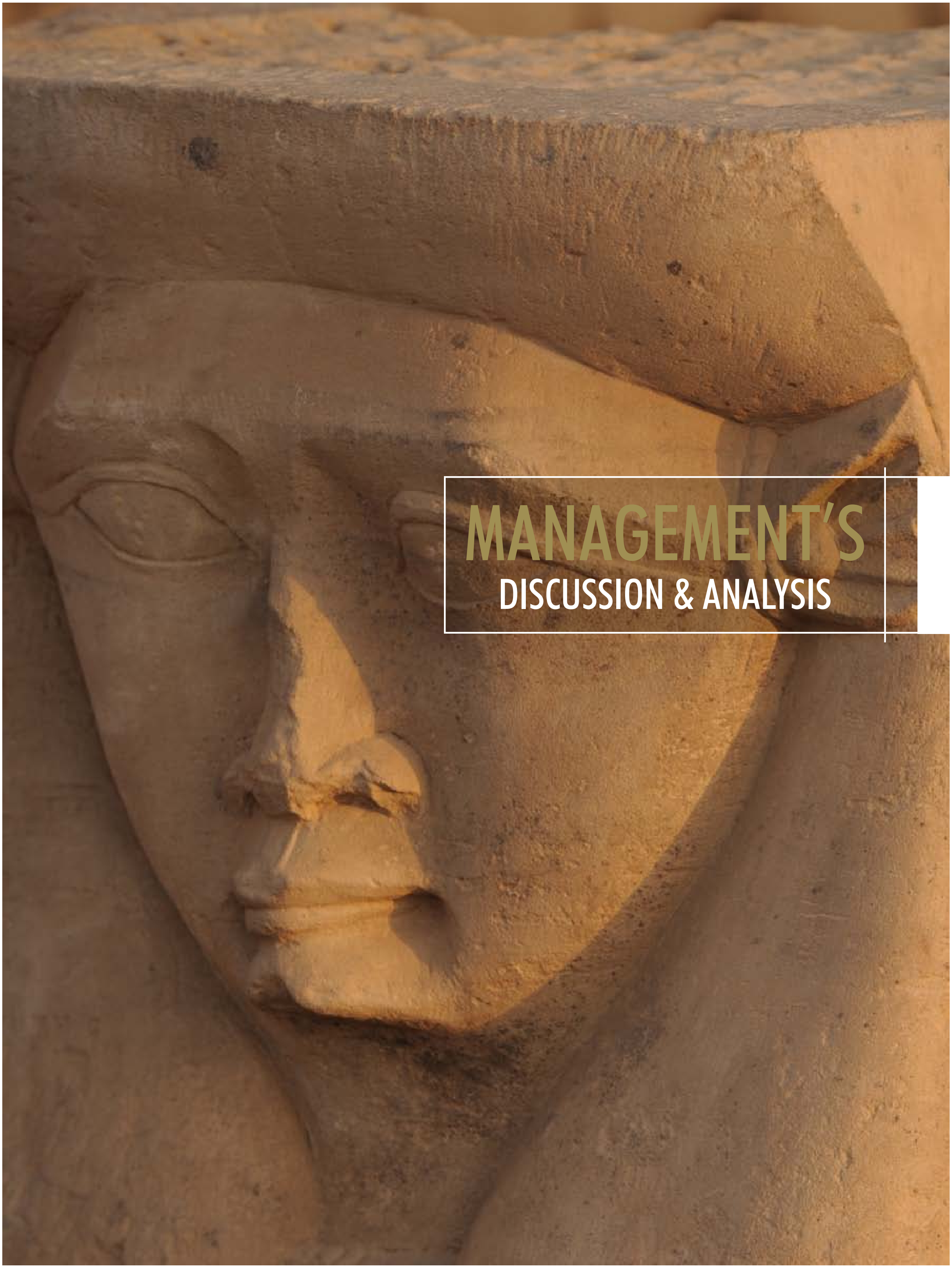

MANAGEMENT'S DISCUSSION & ANALYSIS

BASIS OF PRESENTATION

The following management's discussion and analysis (the "MD&A") dated March 29, 2011 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 twelve months ended December 31, 2010. This MD&A should be read in conjunction with the accompanying audited financial statements for the years ended December 31, 2010 and 2009. The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the functional currency of the Company is the United States dollar (US$).

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.

CHANGE IN REPORTING CURRENCY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Effective July 1, 2010, the Company changed its reporting and functional currency from Canadian dollars (CDN$) to United States dollars (US$), as significant portions of the Company's revenues, expenses and cash flows are denominated in US$. The change in reporting currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the international oil and gas industry. Prior to July 1, 2010, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations and cash flows in CDN$. In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA), set out in EIC-130, Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency. In accordance with EIC-130, the financial statements for all years and periods presented have been translated into the new reporting currency using the current rate method. Under this method, the statements of operations and cash flow statement items for each year and period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders' equity transactions have been translated using the rates of exchange in effect as of the dates of the various capital transactions, while shareholders' equity balances from the translation are included as a separate component of other comprehensive income. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. **All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US$ and the effect on the consolidated financial statements resulted in an accumulated and other comprehensive income adjustment of $8.3 million as at July 1, 2010.**

All financial references in this MD&A are in thousands of United States 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

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	**2010**	**2009** *(restated)*	**2010**	**2009** *(restated)*
Cash from/(used in) operating activities	**526**	20	**(4,484)**	(2,450)
Less: changes in non-cash working capital	**399**	1,621	**(6,092)**	2,130
Funds from/(used in) operations	**127**	(1,601)	**1,608**	(4,580)

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. See netback reconciliation schedule under the outlook section below.

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 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.

As a result of large demonstrations in Egypt beginning in January 2011, the country's President resigned on February 11, 2011 and turned over all power to a transitional government to introduce the necessary political reforms towards democracy and civilian government with transparent elections. In addition, the prime minister of Egypt who was previously appointed by the President resigned on March 3, 2011. The demonstrations had a minimal effect on the operations of the Company with the exception of minor delays in materials and permitting.

Sea Dragon believes Egypt has a long history of creating an environment to attract and retain foreign investment and does not anticipate any adverse changes to the concession agreements governing both NW Gemsa and Kom Ombo and will continue to attempt to expand its asset base in Egypt and abroad.

STRATEGY

Increase shareholder value through growth in production, reserves and cash flow in the Company's two existing concessions. A fast-tracked 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 investments.

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.

OUTLOOK

The Company's expected capital expenditure program for 2011 is approximately $12.4 million.

The Company's capital expenditure program for Kom Ombo includes, but is not limited to the drilling of two exploration wells, five development wells, several workovers and a fracturing program.

With respect to NW Gemsa, during 2011, the Al Amir SE field will undergo pressure maintenance through water injection and preservation of associated gas and stripping of hydrocarbon liquids. The Company's capital expenditure program includes, but is not limited to, expanding the production facilities, building a 20km six inch gas line, the drilling of up to four water injection wells and up to two development wells and the building of gas compression facilities.

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.

	PRIOR QUARTER (1)	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts		2010	2009 *(restated)*	2010	2009 *(restated)*
Operational					
Oil sales	7,886	**7,535**	365	**27,400**	365
Royalties	(4,212)	**(3,683)**	(186)	**(14,871)**	(186)
Operating	(828)	**(1,267)**	(37)	**(3,423)**	(37)
Netback	2,846	**2,585**	143	**9,106**	143
Oil sales *(bbl/d)*	1,190	**995**	67	**1,001**	67
Brent oil price *(US$/bbl)*	76.92	**87.34**	75.54	**80.33**	75.54
Realized oil price *(US$/bbl)*	72.01	**82.34**	73.20	**75.02**	73.20
Royalties *(US$/bbl)*	38.47	**40.23**	37.02	**40.70**	37.02
Operating costs *(US$/bbl)*	7.56	**13.85**	7.43	**9.37**	7.43
Netback *(US$/bbl)*	25.98	**28.26**	28.75	**24.95**	28.75
Capital expenditures	3,982	**5,545**	14,709	**56,633**	38,603

(1) Three months ended September 30, 2010

PRODUCTION

Production for the three and twelve months ended December 31, 2010 averaged 995 bbl/d and 1,001 bbl/d compared to 67 bbl/d in the comparative periods and 1,190 bbl/d in the three months ended September 30, 2010 (the "Prior Quarter"). The increase in production in 2010 as compared to 2009 is due to the Company's acquisition of NW Gemsa in December 2009, the company's acquisition of Kom Ombo in late April 2010, and the drilling of 11 wells, 8 were drilled in Kom Ombo (4 net) and 3 were drilled in NW Gemsa (0.3 net) during the twelve months ended December 31, 2010. At the time of acquisition of NW Gemsa, the concession was producing 2,200 bbl/d gross (220 bbl/d net), whereas during the three months ended December 31, 2010 (the "Quarter"), production averaged approximately 7,220 bbl/d gross (722 bbl/d net) and is expected to exit 2011 in excess of 10,000 bbl/d gross (1,000 bbl/d net).

PRICING

The Company is exposed to the volatility in commodity price markets for all of its production volumes and changes in foreign exchange rate between the Canadian and US dollar for certain general and administrative expenses. 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 twelve months ended December 31, 2010 the Company received $82.34 per barrel and $75.02 per barrel compared to the Brent Oil price ("Brent") of $87.34 per barrel and $80.33 per barrel. The Company receives a $3-5/bbl discount to Brent due to the quality of the oil produced and a contracted discounted price levied by the refineries.

Oil prices ended 2010 higher than where they started with increased volatility subsequent to year end. Brent ranged from a low US$ 88.92 per barrel to a high of US$ 94.59 per barrel during the three months ended December 31, 2010 and from a low of US$ 69.55 per barrel to a high of US$ 94.59 per barrel during the twelve months ended December 31, 2010. Due to strong economic growth in both developed and more importantly emerging markets, oil demand has increased providing price support for oil prices. Recent turmoil in the Middle East has increased Brent prices to over US$ 110 per barrel as at the date of this MD&A. Sea Dragon expects prices to remain volatile through 2011. At this time, Sea Dragon does not hedge any of its production.

CRUDE OIL SALES

	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts		2010	2009 *(restated)*	2010	2009 *(restated)*
Oil sales	7,886	**7,535**	365	**27,400**	365
Per bbl	72.01	**82.34**	73.20	**75.02**	73.20

Crude oil sales for the twelve months ended December 31, 2010 increased due to the Company's average production increasing from 67 bbls/d in 2009 to 1,001 bbls/d in 2010.

Crude oil sales for the three months ended December 31, 2010 was $7.5 million compared to $7.9 million in the prior three month period ending September 30, 2010. For the three months ended December 31, 2010 the increase in revenue is attributable to a 13 percent increase in realized sales price offset by a 20 percent decrease in sales volumes.

(0000's)	
Three months ended September 30, 2010 oil sales	7,886
Price variance	945
Production variance	(1,296)
Three months ended December 31, 2010 oil sales	7,535

ROYALTIES

	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2010	2009 *(restated)*	2010	2009 *(restated)*
Royalties	4,212	**3,683**	186	**14,871**	186
Per bbl	38.47	**40.23**	37.02	**40.70**	37.02
Royalties as a percent of revenue *(%)*	54	**49**	51	**54**	51

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 DRAGON'S 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

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	2010	2009 *(restated)*	2010	2009 *(restated)*
Operating costs	828	**1,267**	37	**3,423**	37
Per bbl	7.56	**13.85**	7.43	**9.37**	7.43

Operating costs for the three and twelve months ended were $1.3 million ($13.85 per bbl) and $3.4 million ($9.37 per bbl) respectively. The increase in operating costs from the prior year is due to the acquisition of Kom Ombo. The producing field within Kom Ombo, Al Baraka, has higher operating costs than the producing filed within NW Gemsa primarily due to higher fixed costs spread over a lower production base. The Al Baraka field has a large percentage of fixed costs and as production increases from the field the cost per barrel is expected to decrease. Notwithstanding, the Company continues to work with the operator of Kom Ombo to decrease the cost of operations and maximize efficiencies.

CURRENT TAXES

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	2010	2009 *(restated)*	2010	2009 *(restated)*
Current taxes	928	**896**	29	**3,175**	29
Taxes as a percent of revenue (%)	12	**12**	8	**12**	8

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") for NW Gemsa and by Ganoub El Wadi Petroleum Holding Company ("Ganope") for Kom Ombo, out of the profit oil attributable to the EGPC and Ganope, and not by the Company. For accounting purposes the corporate taxes paid by the EGPC and Ganope 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

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2010	THREE MONTHS ENDED DECEMBER 31 2009 (restated)	TWELVE MONTHS ENDED DECEMBER 31 2010	TWELVE MONTHS ENDED DECEMBER 31 2009 (restated)
Property and equipment expenditures	3,982	**5,545**	14,709	**12,132**	9,743
Property and equipment acquisition	–	**–**	–	**44,501**	14,760

During the twelve months ended December 31, 2010, the Company closed the acquisition of Kom Ombo for approximately $44.5 million, drilled 3 wells (0.3 net) in NW Gemsa and 8 wells (4 net) in Kom Ombo. In addition, the Company completed a 475 km seismic program over a portion of Kom Ombo. The capital program resulted in the addition of 6.9 million boe of proved plus probable reserves. During the three months ended December 31, 2009 the Company completed the acquisition of NW Gemsa.

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

	DECEMBER 31 2010	DECEMBER 31 2009 (restated)
Oil and gas properties, at cost	**99,175**	44,344
Accumulated depletion	**(6,710)**	(102)
Accumulated impairment of oil and gas properties	**(29,996)**	(29,996)
	62,469	14,246
Furniture and equipment, at cost	**369**	134
Accumulated depreciation	**(96)**	(24)
	273	110
	62,742	14,356

Kom Ombo Concession

On April 29, 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 $44.5 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 potentially 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 $14.8 million. POE's main asset was a 10 percent working interest in the North West Gemsa oil and gas concession in the Arab Republic of Egypt. The results of POE's operations have been included in the consolidated financial statements since that date. Revenues, expenses and capital expenditures arising between the effective July 1, 2009 date and the closing December 21, 2009 date have been recognized as adjustments to the purchase. Sea Dragon primarily funded the acquisition with the proceeds of the private placement that closed on November 6, 2009.

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, in 2009 the Company wrote off approximately $8.9 million of the costs except for unused drilling materials. No additional capital expenditures were incurred during the twelve months ended December 31, 2010 on the EWA property.

GENERAL AND ADMINISTRATIVE COSTS

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2010	2009 (restated)	TWELVE MONTHS ENDED DECEMBER 31 2010	2009 (restated)
Wages and employee costs	496	**642**	183	**2,083**	779
Consultants	296	**312**	556	**1,304**	1,450
Travel	24	**69**	57	**664**	311
Office expense	107	**573**	200	**828**	702
Foreign offices	178	**32**	–	**479**	–
Finance/banking	3	**(58)**	336	**(335)**	485
Total	1,106	**1,570**	1,332	**5,023**	3,726

General and administrative ("G&A") costs for the three and twelve months ended December 31, 2010 were $1.6 million and $5.0 million, respectively, compared to $1.3 million and $3.8 million in the comparative periods in the prior year. Overall, G&A costs increased due to additional employees, increased travel, and the opening of a Cairo and Paris office. The cost increases are commensurate with increased activity and the hiring of additional personnel. During the twelve months ended December 31, 2010, the Company recorded a non-recurring reduction in G&A for approximately $0.4 relating to a receivable which previously was written off and collected in full during the year.

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 twelve months ended December 31, 2010, was $0.5 million and $1.3 million respectively, compared to $0.1 million and $0.4 million in the comparative periods in the prior year.

During the year the Company granted 2.8 million options that vest over three years to employees and officers at a weighted average price of $0.32 CDN. In addition, the Company granted 1.3 million options that vest immediately to directors at a weighted average price of $0.27 CDN.

	THREE MONTHS ENDED DECEMBER 31 2010	2009 (restated)	TWELVE MONTHS ENDED DECEMBER 31 2010	2009 (restated)
Risk free rate *(%)*	**2.19**	2.42	**2.23**	2.58
Expected life *(years)*	**5**	5	**5**	5
Expected volatility *(%)*	**117**	147	**125**	155
Dividend per share *(%)*	**–**	–	**–**	–
Weighted average fair value *(CDN$)*	**0.22**	0.45	**0.26**	0.26

MD&A

DEPLETION & DEPRECIATION ("D&D")

$000's, except per unit amount	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2010	THREE MONTHS ENDED DECEMBER 31 2009 *(restated)*	TWELVE MONTHS ENDED DECEMBER 31 2010	TWELVE MONTHS ENDED DECEMBER 31 2009 *(restated)*
Depletion & depreciation	2,603	**1,087**	109	**6,642**	123
Per bbl	23.77	**11.88**	17.68	**18.18**	19.95

For the three and twelve months ended December 31, 2010, depletion and depreciation ("D&D") was $1.1 million and $6.6 million respectively. The increase in D&D on an absolute basis is due to increased production in NW Gemsa and the purchase of Kom Ombo. The significant decrease in D&D from prior quarter is due to the significant proven reserve additions in 2010. In the comparative periods, the Company had only 10 days of production.

NET LOSS

For the three and twelve months ended December 31, 2010, the Company recorded a net loss of $1.3 million and $6.2 million respectively, compared to a net loss of $1.7 million and $14.1 million in the comparative periods in the prior year.

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.

TRADING STATISTICS	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2010	THREE MONTHS ENDED DECEMBER 31 2009	TWELVE MONTHS ENDED DECEMBER 31 2010	TWELVE MONTHS ENDED DECEMBER 31 2009
Low *(CDN)*	$ 0.23	**$ 0.23**	$ 0.24	**$ 0.23**	$ 0.07
High *(CDN)*	$ 0.32	**$ 0.34**	$ 0.56	**$ 0.66**	$ 0.56
Average daily volume	1,208,179	**1,179,394**	1,038,076	**1,207,256**	595,359

The following table summarizes the outstanding common shares, warrants and options as at December 31, 2009, December 31, 2010 and March 25, 2011.

OUTSTANDING AS AT	MARCH 29 2011	DECEMBER 31 2010	DECEMBER 31 2009
Common shares	376,459,358	376,459,358	206,131,405
Warrants	30,000,000	30,000,000	37,659,671
Options	13,250,000	13,250,000	9,816,666

As at December 31, 2010 the Company had 30.0 million warrants with an exercise price of $0.50 CDN per warrant. The warrants expire on November 6, 2012.

The following table summarizes the outstanding options as at December 31, 2010:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
EXERCISE PRICE RANGE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE
$0.00 to $0.19	3,000,000	3.6 years	999,998	3.6 years
$0.20 to $0.39	4,000,000	4.6 years	1,250,000	4.7 years
$0.40 to $0.59	1,750,000	2.0 years	650,002	1.9 years
$0.60 to $0.79	4,500,000	2.6 years	3,266,664	2.6 years
	13,250,000	3.4 years	6,166,664	3.1 years

CAPITAL RESOURCES

As at December 31, 2010 the Company had working capital of approximately $ 15.7 million including cash on hand of $14.8 million. The Company expects to fund its 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 December 31, 2010, the Company had $6.1 million in accounts receivable outstanding compared to $2.3 million as at December 31, 2009. Approximately $5.6 million is due from two separate entities both of which are government controlled agencies in Egypt for oil sales and is expected to be received in the normal course of operations.

As evidenced 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 April 13, 2010 the Company converted 22.7 million special warrants that were issued on January 25, 2010. 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 original 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 on April 13, 2010, 23.9 million common shares were issued upon the exercise of the special warrants. The Company recognized an expense of $0.5 million for the estimated fair value of the Additional Shares on the exercise of the special warrants. The net proceeds to the Company were $11.0 million.
- On April 19, 2010, Sea Dragon completed an issuance of 142.5 million common shares on a bought deal basis pursuant to a short form prospectus for net proceeds to the Company of $53.5 million.

The following table outlines the Company's sources and uses of cash for the three and twelve months ended December 31, 2010 and 2009.

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2010	2009 *(restated)*	2010	2009 *(restated)*
Sources:					
Funds from operations	766	**127**	–	**1,608**	–
Proceeds from issuance of shares	49	**87**	13,885	**64,638**	13,931
Deposit and restricted cash	–	**–**	–	**2,168**	–
Restricted cash	–	**310**	4,388	**310**	9,336
Demand loan	–	**–**	283	**–**	–
Convertible debenture	–	**–**	–	**287**	–
Effect of foreign exchange on cash and cash equivalents	550	**176**	–	**–**	–
Changes in non-cash working capital	–	**399**	1,621	**–**	2,130
Changes in non-cash investing working capital	1,174	**747**	–	**6,501**	–
	2,539	**1,846**	20,177	**75,512**	25,397
Uses:					
Funds used in operations	–	**–**	(1,601)	**–**	(4,580)
Capital acquisitions	–	**–**	–	**(44,501)**	(14,760)
Capital expenditures	(3,982)	**(5,544)**	(14,709)	**(12,132)**	(9,743)
Deposit and restricted cash	–	**–**	(1,987)	**–**	(1,987)
Demand loan	–	**–**	–	**–**	–
Effect of foreign exchange on cash and cash equivalents	–	**–**	(449)	**(35)**	(203)
Changes in non-cash investing working capital	–	**–**	(1,268)	**–**	(5,789)
Changes in non-cash working capital	(1,037)	**–**	–	**(6,092)**	–
	(5,019)	**(5,544)**	(20,014)	**(62,760)**	(37,062)
Increase/(decrease) in cash	(2,480)	**(3,698)**	163	**12,752**	(11,665)
Cash and cash equivalents at beginning of period	20,929	**18,449**	1,836	**1,999**	13,664
Cash and cash equivalents at end of period	18,449	**14,751**	1,999	**14,751**	1,999

FINANCIAL INSTRUMENTS

The Company is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The following discussion reviews material financial risks, quantifies the associated exposures, and explains how these risks, and the Company's capital, are managed.

Market Risk

Changes in commodity prices and foreign currency exchange rates can have an impact on the Company's earnings and value of financial assets and liabilities.

Commodity Price Risk – Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices.The Company is exposed to commodity price risk due to the nature of its business. Oil prices are impacted by global supply and demand, as well as political and other factors.

The Company receives world oil prices for its oil production which is subject to price fluctuations. The price received for crude oil can be very volatile and can undergo significant changes in relatively short time periods. During the year ended December 31, 2010 the Company received an average price of $75.02 per bbl compared to an average Brent oil price of $80.33. During the year, the price of oil fluctuated from a high of $94.59 per bbl to a low of $69.55 per bbl. As at December 31, 2010 the Company did not have any derivative commodity price contracts in place.

Foreign Currency Exchange Rate Risk - Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As the effects of foreign exchange fluctuations are embedded in the Company's results, the total effect of foreign exchange fluctuations are not separately identifiable. The reporting currency of the Company is United States dollars (US$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the Canadian dollar (CDN$) and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in US$ therefore the Company's exposure to foreign exchange is reduced.

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

AS AT DECEMBER 31, 2010	TOTAL PER FS[1]	US$	EGP	EUR	CAD
			US$ Equivalent		
Cash and cash equivalents	14,751	9,955	6	22	4,768
Accounts receivable	6,082	6,040	–	4	38
Accounts payable and accrued liabilities	(5,275)	(4,881)	–	(24)	(370)
Balance sheet exposure	15,558	11,114	6	2	4,436

[1] *denotes Financial Statements*

AS AT DECEMBER 31, 2009	TOTAL PER FS [1]	US$	EGP	EUR	CAD
			US$ Equivalent		
Cash and cash equivalents	1,999	840	5	–	1,154
Accounts receivable	2,266	2,217	–	–	49
Accounts payable and accrued liabilities	(1,014)	(20)	–	–	(994)
Balance sheet exposure	3,251	3,037	5	–	209

[1] *denotes Financial Statements*

A three percent strengthening of the US$ would result in a change in earnings as follows:

AS AT DECEMBER 31, 2010	EGP	EUR	CAD
		US$ Equivalent	
Decrease in earnings	–	–	133

Credit Risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation and arises principally from joint venture partners and oil marketers. The Company is exposed to credit risk in respect to its cash and cash equivalents and accounts receivable.

Cash and cash equivalents are held in operating accounts with major international banks in Canada, Egypt and the United Kingdom, and therefore the Company considers these assets to have negligible credit risk.

The carrying amount of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure.

At December 31, 2010 the Company had accounts receivable of $6.0 million of which 92 percent was due from two separate entities, both of which are government controlled agencies in Egypt. At December 31, 2009 the Company had accounts receivable of $2.3 million of which 98 percent was due from one entity, which is a government controlled agency in Egypt. The Company expects to collect the outstanding receivables in the normal course of operations.

Accounts receivable are analyzed in the table below. There are no indications as of the reporting date that the debtors will not meet their payment obligations.

ACCOUNTS RECEIVABLE AT DECEMBER 31, 2010

Total accounts receivable	**6,082**
Aging:	
0-60 days	**3,398**
61-90 days	**633**
Over 90 days	**2,050**

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will have sufficient cash resources to meet its liabilities when they become due. The Company manages its risk of not meeting its financial obligations through management of its capital structure, annual budgeting of its revenues, expenditures and cash flows. On a monthly basis, internal reporting of actual results is compared to the budget in order to modify budget assumptions, if necessary, to ensure liquidity is maintained.

The Company believes that the current working capital balance and cash flow from operations will be adequate to support the Company's financial liabilities and commitments.

As of December 31, 2010, the Company's financial liabilities are due within one year.

Capital Management

The Company defines and computes its capital as follows:

	DECEMBER 31 2010	DECEMBER 31 2009 *(restated)*
Shareholder Equity	**78,412**	20,226
Working capital [(1)]	**(15,670)**	(3,267)
Total capital	**62,742**	16,959

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

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

Working capital as at December 31, 2010 of $15.7 million has increased from the December 31, 2009 balance of $3.3 million primarily as a result of the Company raising $11.0 million and $53.5 million net of related costs in two private placements during the year ended December 31, 2010 (Note 8). The Company is not subject to externally imposed capital requirements.

Financial Instruments

The Company's financial instruments as at December 31, 2010 and 2009 were comprised of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of financial assets and financial liabilities that are included on the balance sheet approximate their carrying amounts due to their short term nature.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company does not have any financial derivative contracts as at December 31, 2010.

Summary of Quarterly Results

FISCAL YEAR	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial $000's			*(restated)*			*(restated)*		
Cash, beginning of period	**18,449**	**20,929**	**5,201**	**1,999**	1,836	1,822	4,669	13,664
Cash, end of period	**14,751**	**18,449**	**20,929**	**5,201**	1,999	1,836	1,822	4,669
Working capital/ (deficiency)	**15,670**	**20,514**	**23,132**	**16,385**	3,267	2,225	1,582	(7,447)
Funds from/(used in) operations	**127**	**766**	**668**	**47**	(1,601)	(1,428)	(917)	(671)
per share	**0.00**	**0.00**	**0.00**	**0.00**	(0.01)	(0.01)	(0.01)	(0.00)
Net loss	**(1,294)**	**(1,742)**	**(1,352)**	**(1,764)**	(1,717)	(2,017)	(977)	(9,367)
per share	**(0.00)**	**(0.00)**	**(0.00)**	**(0.01)**	(0.01)	(0.01)	(0.01)	(0.06)
Capital expenditures	**(5,545)**	**(3,982)**	**(140)**	**(46,965)**	(14,709)	(14,709)	(531)	(8,654)
Total assets	**83,687**	**83,210**	**83,011**	**35,089**	21,240	8,023	9,152	21,347
Shareholders' Equity	**78,412**	**79,108**	**83,049**	**31,513**	20,226	7,644	8,806	8,956
Common shares outstanding *(000's)*	**376,459**	**375,959**	**375,704**	**208,430**	206,131	144,509	144,509	144,509
Warrants outstanding	**30,000**	**30,000**	**30,255**	**32,185**	37,660	9,088	9,282	9,282
Operational								
Oil sales *(bbl/d)*	**995**	**1,190**	**1,032**	**786**	67	–	–	–
Brent oil price *($/bbl)*	**87.34**	**76.92**	**79.41**	**77.37**	75.54	–	–	–
Realized oil price *($/bbl)*	**82.34**	**72.01**	**75.83**	**68.68**	73.20	–	–	–
Royalties *($/bbl)*	**40.23**	**38.47**	**40.85**	**44.38**	37.02	–	–	–
Operating costs *($/bbl)*	**13.85**	**7.56**	**10.37**	**5.02**	7.43	–	–	–
Netback *($/bbl)*	**28.26**	**25.98**	**24.62**	**19.28**	28.75	–	–	–

The increase in revenue and decrease in net loss from 2008 to 2009 is primarily due to the acquisition of NW Gemsa in December 2009 and a decrease in write-off relating to the EWA concession. The increase in revenue and decrease in net loss from 2009 to 2010 is primarily due to the acquisition of Kom Ombo in April 2010 and inclusion of the operations of NW Gemsa for all of 2010.

The decrease in total assets from 2008 to 2009 is due to the writedown of the EWA property. In addition, during 2009 the Company used proceeds of a private placement to acquire the NW Gemsa property. The increase in total assets from 2009 to 2010 is a result of the Company raising $64.5 million through two share issuances and the subsequent purchase of the Kom Ombo property in April 2010.

	2010	2009	2008
Revenue	**12,547**	337	239
Net loss	**(6,152)**	(14,079)	(17,934)
Net loss per share	**(0.02)**	(0.09)	(0.19)
Total assets	**83,687**	21,240	24,346

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:

FISCAL YEAR	CONCESSION AGREEMENTS	OFFICE LEASES	*($000s)* TOTAL
2011	1,000	420	1,420
2012	–	397	397
2013	–	357	357
2014	–	357	357
2015	–	357	357

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. On February 3, 2011, the Alberta Court of Queen's Bench granted an application by the Company to stay the Court proceedings in respect of this Claim, on the grounds that the Claim is subject to an arbitration agreement and an arbitration tribunal has previously been appointed to adjudicate the same subject matter as the Claim. The arbitration has itself been stayed since April 2009, due to the failure by the plaintiffs to pay a deposit required by the arbitration tribunal for the arbitrators' fees and expenses.

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.

CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011 International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Sea Dragon for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The project to convert to IFRS is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company's adoption to IFRS. The Company's auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 would allow Sea Dragon to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows Sea Dragon an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before Sea Dragon' transition date to IFRS.

Cumulative translation differences – IFRS 1 allows Sea Dragon to reset the foreign currency translation reserve to zero at the transition date.

Sea Dragon anticipates using these exemptions.

The transition from Canadian GAAP to IFRS is significant and may materially affect the Company's reported financial position and results of operations. At this time, Sea Dragon has identified key differences that will impact the financial statements and the current status of those items:

- Exploration and Evaluation ("E&E") expenditures – On transition to IFRS Sea Dragon will re-classify all E&E expenditures that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.

- Property, plant and equipment – The Company currently capitalizes costs of development and production assets that meet the definition of an asset under Canadian GAAP and depletes these costs by cost centre, which is a country, based on total proved reserves. Under IFRS, the Company is anticipating calculating the depletion rate at the field level. On transition to IFRS Sea Dragon has the option to base the depletion calculation using either proved reserves or proved plus probable reserves. Sea Dragon is anticipating calculating depletion using proved plus probable reserves. The Company continues to assess the impact of the changes.

- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E ("cash generating unit") as opposed to the entire PP&E balance which is currently required under current Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves. Sea Dragon is currently determining its cash generating units for the purpose of impairment testing and anticipates using proved plus probable reserve values for impairment tests.

- Share based payments – The Company has determined the major differences from current Canadian GAAP that would impact the Company such as treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. The Company is currently performing the revised share-based payment expense calculations under IFRS.

- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

This list of areas impacted by IFRS should not be regarded as a comprehensive list of changes that will result from the transition to IFRS. The Company continues to monitor the development of standards.

In addition to the accounting policy differences, Sea Dragon's transition to IFRS will impact the internal controls over financial reporting, the disclosure controls and procedures and information technology ("IT") systems as follows:

Internal controls over financial reporting – Base on the Company's accounting policies under IFRS Sea Dragon has assessed whether additional controls or changes in procedures are required. The Company does not consider these changes to be significant.

IT Systems – Sea Dragon has assessed the readiness of its accounting software and has and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

Management is continuing to finalize its accounting policies and choices and is continuing with its due process in regards to information that is disclosed. As such, the Company is currently unable to quantify the full impact on the financial statements of adopting IFRS however, the Company has disclosed certain expectations above based on information known to date. Due to anticipated changes to IFRS and International Accounting Standards prior to Sea Dragon's adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

NEW ACCOUNTING PRONOUNCEMENTS

Amendments to IFRS 7 – Financial Instruments: Disclosures – The amendments emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments and is effective for annual periods beginning on or after July 1, 2011. Sea Dragon is currently assessing the impact of these amendments.

IFRS 9 – Financial Instruments – This is the first standard issued as part of a wider project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 also includes the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities. Guidance on how to measure the fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, remain the same as IAS 39. This standard is effective January 1, 2013.

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.

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. 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 year ended December 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 December 31, 2010.