Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated April 11, 2013 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 months and twelve months ended December 31, 2012. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2012 and 2011.

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 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.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS 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.

Non-IFRS Measures

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

Funds from operations

Funds from operations are a non-IFRS 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 IFRS.

Reconciliation of cash flow from operations and funds flow from operations:

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	**2012**	2011	**2012**	2011
Cash from/(used in) operating activities	**1,117**	(793)	**7,343**	(1,900)
Less: changes in non-cash working capital	**(966)**	(1,302)	**4,111**	(7,525)
Funds from operations	**2,083**	509	**3,232**	5,625

For the three and twelve month period ended December 31, 2012 the Company generated funds flow from operations before evaluation and exploration expense of $2.7 million and $6.7 million, respectively.

Netback

Netback is a non-IFRS 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 historically 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. In late 2011 and early 2012 Egypt successfully held parliamentary and senate elections. The presidential elections occurred in late June 2012. A new President was elected in July, a new Prime Minister was appointed and a civilian Government formed in July 2012. The new President retired the long serving head of the military council and appointed a new Defense Minister, thus asserting the newly elected Government authority over the armed forces. Parliamentary elections are anticipated to occur late 2013.

Sea Dragon believes Egypt has a long history of creating an environment to attract and retain foreign investment and continues to seek new investment opportunities in Egypt. Sea Dragon will also seek to expand in other countries.

Strategy

Increase shareholder value through growth in production, reserves and cash flow. In addition, the Company's current portfolio offers 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 three development concessions in Egypt: the NW Gemsa Concession ("NW Gemsa"), the Kom Ombo Concession ("Kom Ombo"), and the Shukheir Marine Concession ("SHM"). 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 2013 is approximately $4.0 million.

The Company's capital expenditure program for NW Gemsa is $3.0 million and includes, but is not limited to, the drilling of two development wells, three water injection wells and expanding production facilities.

The Company's capital expenditure program for SHM is $0.5 million and includes, but is not limited to, completion of one workover and contingent drilling of one well.

The Company's capital expenditure program for Kom Ombo is $0.5 million and includes, but is not limited to, the completion of a development well, testing costs and drilling of one appraisal well, and selective workovers.

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.

$000's except per unit amounts	PRIOR QUARTER[1]	THREE MONTHS ENDED DECEMBER 31 2012	THREE MONTHS ENDED DECEMBER 31 2011	TWELVE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2011
OPERATIONAL					
Oil revenue	11,130	**12,353**	9,527	**44,998**	41,901
Royalties	(5,913)	**(6,496)**	(4,713)	**(23,804)**	(21,407)
Operating costs	(965)	**(578)**	(1,100)	**(3,680)**	(3,007)
Netback	4,252	**5,279**	(3,714)	**17,514**	17,487
Oil sales *(bbl/d)*	1,149	**1,273**	991	**1,147**	1,082
Brent oil price *(US$/bbl)*	109.28	**110.51**	109.38	**111.64**	111.28
Realized oil price *(US$/bbl)*	105.33	**105.52**	104.54	**107.20**	106.15
Royalties *(US$/bbl)*	55.96	**55.49**	51.72	**56.71**	54.23
Operating costs *(US$/bbl)*	9.13	**4.94**	12.07	**8.77**	7.62
Netback *(US$/bbl)*	40.24	**45.09**	40.75	**41.72**	44.30
Capital expenditures	1,902	**1,358**	1,892	**8,355**	8,024

[1] *Three months ended September 30, 2012*

Production

Production for the three months (the "Quarter") and twelve months ended December 31, 2012 averaged 1,273 and 1,147 bbl/d compared to 991 and 1,082 bbl/d for the comparative periods in the prior year. During the Quarter, the Company drilled one well (0.1 net) in NW Gemsa. During the year ended December 31, 2012 the Company drilled 10 wells (2.6 net), four wells (2.0 net) in Kom Ombo and six wells (0.6 net) in NW Gemsa.

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, 2012 the Company received an average price of $105.52 per barrel and $107.20 per barrel compared to the average Brent Oil price ("Brent") of $110.51 per barrel and $111.64 per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a contracted discounted price levied by the refineries.

During the twelve months ended December 31, 2012 the Brent price ranged from a low of $95.16 per barrel in June to a high of $125.45 per barrel in March 2012. Due to strong economic growth in both developed and more importantly emerging markets, oil demand has increased providing price support for oil prices. In addition, turmoil in the Middle East and North Africa has further increased oil prices. At this time, Sea Dragon does not hedge any of its production.

Crude Oil Sales

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	THREE MONTHS ENDED DECEMBER 31 2011	TWELVE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2011
Crude oil sales	11,130	**12,353**	9,527	**44,998**	41,901
Per bbl	105.33	**105.52**	104.54	**107.20**	106.15

Crude oil sales for the three and twelve months ended December 31, 2012 was $12.4 million and $45.0 million compared to $9.5 million and $41.9 million for the three and twelve months ended December 31, 2011.

Variance from prior year

For the three months ended December 31, 2012 the increase in revenue is attributable to a 0.2 percent increase in realized sales price and a 10.8 percent increase in sales volumes from the prior quarter ending September 30, 2012. The increase in sales volume is due primarily to the acquisition of National Petroleum Company Shukheir Marine Ltd ("NPC SHM") in December.

$000's	
Three months ended September 30, 2012	11,130
Price variance	24
Production variance	1,199
Three months ended December 31, 2012	**12,353**

For the three months ended December 31, 2012 the increase in revenue is attributable to a 0.9 percent increase in realized sales price and a 28.5 percent increase in sales volumes from the prior year quarter ending December 31, 2011. The increase in sales volume is due to the acquisition of NPC SHM in December.

$000's	
Three months ended December 31, 2011	9,527
Price variance	89
Production variance	2,737
Three months ended December 31, 2012	**12,353**

Variance from prior year

For the twelve months ended December 31, 2012 the increase in revenue is due to a 1.0 percent increase in realized sales price and a 6.0 percent increase in sales volumes from prior period ending December 31, 2011.

$000's	
Twelve months ended December 31, 2011	41,901
Price variance	436
Production variance	2,661
Twelve months ended December 31, 2012	**44,998**

Royalties

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	2011	TWELVE MONTHS ENDED DECEMBER 31 2012	2011
Royalties	5,913	**6,496**	4,713	**23,804**	21,407
Per bbl	55.96	**55.49**	51.72	**56.71**	54.23
Royalties as a percent of revenue (%)	53	**53**	49	**53**	51

Due to the fiscal terms of the Company's concessions, the $2.8 million and $3.1 million increase in revenue for the three and twelve months ended December 31, 2012 is offset by a corresponding increase in royalties of $1.8 million and $2.4 million for the three and twelve months ended December 31, 2012.

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 change 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%
Shukheir Marine	100%	40%	5 years (5)	Immediate	Nil	17.5%

(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 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 Shukheir Marine and 21% to the Contractor in Kom Ombo.

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

(5) Under the original concession agreement, development expenditures were amortized over ten years. However, development expenditures incurred after July 27, 2005 effective date of the Amended Agreement shall be recoverable at the rate of 20% per year.

Direct operating costs

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	2011	TWELVE MONTHS ENDED DECEMBER 31 2012	2011
Direct operating costs	965	**578**	1,100	**3,680**	3,007
Per bbl	9.13	**4.94**	12.07	**8.77**	7.62

Direct operating costs for the three and twelve months ended December 31, 2012 were $0.6 million ($4.94 per bbl) and $3.7 million ($8.77 per bbl), compared to $1.1 million ($12.07 per bbl) and $3.0 million ($7.62 per bbl) in the comparative period in the prior year.

The operating costs for the twelve months ended December 31, 2012 have increased due to increased repairs and maintenance costs in the NW Gemsa concession. In addition, the Company acquired NPC SHM effective December 1, 2012 which included $0.4 million of operating costs in December.

The operating costs per barrel have increased due to the acquisition of the SHM concession which has higher $/bbl operating costs.

The reduction in operating costs for the three months ended December 31, 2012 is due to the settlement and reversal of the provision for personnel costs of $0.4 million.

Current taxes

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	2011	TWELVE MONTHS ENDED DECEMBER 31 2012	2011
Current taxes	1,304	**1,366**	1,139	**5,201**	5,043

Pursuant to the terms of the Company's concession agreements, the corporate tax liability of the joint venture partners is paid by the government of Egypt controlled corporations ("Corporations") out of the profit oil attributable to the Corporations, and not by the Company. For accounting purposes the corporate taxes paid by the Corporations are treated as a benefit earned by the Company; the amount is included in net oil revenues and deducted as an income tax expense.

Shukheir Marine acquisition

On December 6, 2012, the Company, through its wholly-owned subsidiary, Sea Dragon Energy Holding Ltd. (BVI), acquired all of the shares of NPC SHM for cash consideration of $0.25 million plus the assumption of NPC SHM's working capital deficiency, excluding accounts receivable. The effective date of the transaction was December 1, 2012. The results of NPC SHM have been included in the consolidated financial statements since that date.

In accordance with IFRS 3, the acquisition has been accounted for using the purchase method with the Company as the acquirer. The following table presents the fair value of consideration given and net assets acquired:

(000's)	
Consideration transferred:	
Cash	250
Net identifiable assets and liabilities acquired:	
Cash	731
Materials inventory	3,306
Property, plant and equipment	1,964
Trade and other payables	(4,022)
Total net identifiable assets acquired:	1,979
Gain on acquisition	(1,729)

The assets of NPC SHM include a 100% participating interest in the Shukheir Marine concession which contains the Shukheir Bay and the Gamma oil fields both of which are located in the shallow offshore Gulf of Suez. NPC SHM owns oil field inventory, which can be applied toward operations and future drilling activity, valued at $3.3 million.

As a result of the acquisition, NPC SHM is now a wholly owned indirect subsidiary of the Company. It is the Company's intention to further develop the Shukheir Marine concession by pursuing both development and exploration opportunities that have been identified on 3-D seismic and geological mapping of the area.

Capital expenditures

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	THREE MONTHS ENDED DECEMBER 31 2011	TWELVE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2011
Property, plant and equipment expenditures	(1,787)	**(1,358)**	(1,946)	**(7,382)**	(7,956)
Exploration and evaluation expenditures	(115)	**–**	54	**(973)**	(68)
	(1,902)	**(1,358)**	(1,892)	**(8,355)**	(8,024)

During the three months ended December 31, 2012, the Company spent $1.4 million on capital expenditures which included the drilling of one well (0.1 net) in NW Gemsa.

During the twelve months ended December 31, 2012, the Company spent $8.4 million on capital expenditures which included the drilling of ten wells (2.6 net), six wells in NW Gemsa and four wells in Kom Ombo.

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

$000's	December 31, 2012	December 31, 2011
Oil and gas properties, at cost	**67,985**	54,949
Accumulated depletion	**(12,056)**	(7,893)
Accumulated impairment	**(22,480)**	(13,660)
	33,449	33,396
Furniture and fixtures, at cost	**366**	390
Accumulated depreciation	**(229)**	(177)
	137	213
	33,586	33,609

During the twelve months ended December 31, 2012, the Company capitalized $ 1.6 million of general and administrative costs related to development and production activities in Egypt (December 31, 2011 - $2.0 million).

At December 31, 2012, future development costs totaling $4.6 million (December 31, 2011 - $28.6 million) have been included in costs subject to depletion.

Impairment Test

At the reporting date, an impairment test was triggered due to reserve revisions in the fourth quarter of 2012. The impairment test was carried out on both the Kom Ombo and NW Gemsa fields in accordance with the accounting policy note stated in note 3 of the Consolidated Financial Statements. The recoverable amounts of the fields have been determined based on value-in-use calculations. These calculations require the use of estimates. The present value of future cash flows was computed by applying forecast prices of oil and gas reserves to estimated future production of proved and probable oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 15%. The discount rate used reflects the specific risks relating the underlying cash generating unit. Based on this calculation, there is an impairment recorded for the Kom Ombo field of $8.8 million. The current discount factor applied to the NW Gemsa impairment test results in an excess of recoverable amount over the carrying value of the NW Gemsa cash generating unit of $18.1 million.

The value in use calculation assumes Brent oil sales prices in US$/bbl as follows:

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
$105.00	$102.00	$100.00	$98.00	$97.38	$99.38	$101.41	$103.48	$105.59	$107.74	$109.94

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the impairment of the Kom Ombo field would be $11.0 million, and an excess of recoverable amount over the carrying value of the NW Gemsa cash generating unit of $12.7 million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the impairment of the Kom Ombo field would be $6.0 million, and an excess of recoverable amount over the carrying value of the NW Gemsa cash generating unit of $25.7 million.

INTANGIBLE EXPLORATION AND EVALUATION ASSETS

$000's	December 31, 2012	December 31, 2011
Exploration and evaluation assets, beginning of period	**21,939**	22,165
Additions	**973**	68
Impairment	**(19,222)**	
Transfers to property, plant and equipment	**(3,690)**	
Transfers to property, plant and equipment	**–**	(294)
Exploration and evaluation assets, end of period	**–**	21,939

Intangible exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves in the Kom Ombo concession. During the year ended December 31, 2012 the Company recognized an impairment loss on the evaluation and exploration assets of $19.2 million. The impaired assets are the lands not developed in the Kom Ombo concession. The Company was required to assess for impairment due to the following indicators: the completion of the planned exploration program, lease expiry in the near future, as well as the initial estimates of the value of the asset indicate that the carrying amount is unlikely to be recovered in full from successful development.

At December 31, 2012, the Company has completed the evaluation procedures on the exploration projects in the Kom Ombo concession, and based on the work completed, it was determined that there are technically feasible and commercially viable reserves available. Therefore, the Company transferred $3.7 million of intangible exploration and evaluation assets to property, plant and equipment.

During the year ended December 31, 2012, the Company incurred $3.4 million ($0.7 million -2011) in pre-license costs which were expensed. The pre-license costs consist of $2.5 million in business development costs, $0.8 million in dry hole costs and $0.1 million in exploration and evaluation expense.

Impairment Test

At the reporting date, an impairment test was carried out immediately prior to reclassification of the intangible exploration and evaluation assets in accordance with the Company's policy under note 3 of the Consolidated Financial Statements. The recoverable amount has been determined based on the value-in-use calculations. These calculations require the use of estimates. The present value of future cash flows was computed by applying forecast prices of oil and gas reserves to estimated future production of proved and probable oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 15%. The discount rate used reflects the specific risks related to the underlying asset. Based on this calculation there is an excess of the recoverable amount over the carrying value of $9.5 million.

The value in use calculation assumes Brent oil sales prices in US$/bbl as follows:

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
$105.00	$102.00	$100.00	$98.00	$97.38	$99.38	$101.41	$103.48	$105.59	$107.74	$109.94

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the excess of the recoverable amount over the carrying value of $6.0 million.

If the discount factor applied to the impairment test were to decrease by 5% below the current factor of 15%, the excess of the recoverable amount over the carrying value of $11.8 million.

General and administrative costs

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	THREE MONTHS ENDED DECEMBER 31 2011	TWELVE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2011
Wages and employee costs	302	**257**	410	**1,469**	1,860
Consultants	181	**226**	819	**722**	1,713
Travel	29	**26**	76	**126**	387
Office expense	192	**168**	172	**796**	807
Foreign offices	266	**353**	303	**1,527**	1,179
Finance/banking	6	**3**	11	**23**	15
Total	976	**1,033**	1,791	**4,663**	5,961

General and administrative ("G&A") costs for the three and twelve months ended December 31, 2012 and 2011 were $1.0 million and $4.7 million compared to $1.8 million and $6.0 million for the comparative periods in the prior year. Overall, G&A costs have decreased from prior year. There has been a decrease in wages and employee costs, consultant costs and travel costs from prior year.

The foreign office costs have increase for both the three and twelve month periods ended December 31, 2012. The reason for the increase in foreign office costs is due to an increase in wages and employee costs in Cairo, and increased travel and office costs in Paris.

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 and twelve months ended December 31, 2012 and 2011, was $0.1 million and $0.5 million, compared to $0.2 million and $0.7 million in the comparative periods in the prior year.

Depletion, depreciation and amortization ("DD&A")

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	THREE MONTHS ENDED DECEMBER 31 2011	TWELVE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2011
Depletion, depreciation and amortization	1,028	**1,303**	1,172	**4,215**	3,859
Per bbl	9.84	**11.13**	12.86	**10.04**	9.78

For the three and twelve months ended December 31, 2012 and 2011, depletion, depreciation and amortization ("DD&A") was $1.3 million and $4.2 million, compared to $1.2 million and $3.9 million in the comparative periods in the prior year.

The depletion for the three and twelve months ended December 31, 2012 has increased from prior year due to decreased future development costs in Kom Ombo which results in a lower depletable base for Kom Ombo as well as reduced reserve values in Kom Ombo and Gemsa, both of which decrease the depletable base.

The depletion rate for the three months ended December 31, 2012 compared to prior year period has decreased due to the increased production for the three months ended December 31, 2012 as compared to the three months ended December 31, 2011.

Net Earnings

For the three and twelve months ended December 31, 2012, the Company recorded a net loss of $6.5 million and $28.1 million, compared to a net loss of $14.4 million and $12.8 million in the comparative periods in the prior year. The decrease in net earnings is due primarily to the $19.2 million evaluation and exploration asset impairment and the $8.8 million property, plant and equipment asset impairment, compared to an impairment of $13.7 million on property, plant and equipment in prior year. In addition to this, there were decreased general and administrative expenses and a gain on acquisition of $1.7 million, offset by increased exploration and evaluation expense, finance expense, and increased direct operating expenses.

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 2012	2011	TWELVE MONTHS ENDED DECEMBER 31 2012	2011
High (CDN)	$0.07	**$0.07**	$0.11	**$0.11**	$0.33
Low (CDN)	$0.04	**$0.05**	$0.07	**$0.04**	$0.07
Average Volume	296,618	**505,933**	700,837	**1,285,316**	1,285,316

The following table summarizes the outstanding common shares, warrants and options as at April 11, 2013, December 31, 2012 and December 31, 2011.

Outstanding as at:	April 11, 2013	December 31, 2012	December 31, 2011
Common shares	376,459,358	376,459,358	376,459,358
Warrants	–	–	30,000,000
Options	35,610,000	35,610,000	20,010,000

As at December 31, 2012 the Company had no warrants outstanding. The warrants expired on November 6, 2012.

The following table summarizes the outstanding options as at December 31, 2012:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
Exercise price range	Number of options	Remaining contractual life	Number of options	Remaining contractual life
$0.01 to $0.18	**27,510,000**	**4.3 years**	**4,719,968**	**2.5 years**
$0.19 to $0.39	**3,150,000**	**2.6 years**	**2,433,329**	**2.6 years**
$0.40 to $0.59	**1,450,000**	**1.9 years**	**1,450,000**	**1.9 years**
$0.60 to $0.79	**3,500,000**	**0.6 years**	**3,500,000**	**0.6 years**
	35,610,000	**3.7 years**	**12,103,297**	**1.9 years**

Capital Resources

As at December 31, 2012 the Company had working capital of approximately $6.6 million including cash on hand of $5.7 million. The Company expects to fund its 2013 capital program from funds from operations and cash on hand. The credit facility may also be utilized to finance other opportunities to expand the Company's asset base.

As at December 31, 2012, the Company had $8.1 million in accounts receivable outstanding compared to $12.2 million as at December 31, 2011. Approximately $7.4 million is due from the government of Egypt controlled corporations for oil sales and is expected to be received in the normal course of operations. As of the date of the MD&A the Company has collected $5.1 million.

The following table outlines the Company's sources and uses of cash for the three and twelve months ended December 31, 2012 and 2011:

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2012	THREE MONTHS ENDED DECEMBER 31 2011	TWELVE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2011
Sources:					
Funds from operations	965	**2,082**	509	**3,232**	5,625
Proceeds from bank facility	–	**–**	3,000	**5,000**	3,000
Restricted cash	2,000	**–**	–	**–**	–
Cash acquired in Shukheir Marine Acquisition	–	**731**	–	**731**	–
Exploration and evaluation expenditures	–	**–**	54	**–**	–
Effect of foreign exchange on cash and cash equivalents	–	**13**	33	**64**	58
Changes in non-cash working capital	1,519	**–**	–	**4,111**	–
	4,484	**2,826**	3,596	**13,138**	8,683
Uses:					
Property, plant and equipment expenditures	(1,787)	**(1,359)**	(1,946)	**(7,382)**	(7,956)
Funds for operations	–	**–**	–	**–**	–
Exploration and evaluation expenditures	(115)	**–**	–	**(973)**	(68)
Restricted cash	–	**–**	–	**–**	–
Acquisition of Shukheir Marine concession	–	**(250)**	–	**(250)**	–
Effect of foreign exchange on cash and cash equivalents	(19)	**–**	(1,274)	**–**	(1,760)
Repayment of debt	(4,337)	**–**	–	**(5,000)**	
Changes in non-cash working capital including non-current provision	–	**(964)**	(1,302)	**–**	(7,525)
	(6,258)	**(2,573)**	(4,522)	**(13,605)**	(17,309)
Increase/(decrease) in cash	(1,774)	**253**	(926)	**(467)**	(8,626)
Cash and cash equivalents at beginning of period	7,179	**5,405**	7,051	**6,125**	14,751
Cash and cash equivalents at end of period	5,405	**5,658**	6,125	**5,658**	6,125

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

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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. Commodity prices for oil and natural gas are impacted by not only the relationship between the United States dollar and other currencies but also world economic events that impact the perceived levels of supply and demand. The Company may hedge some oil and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company's production is sold on the daily average price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company will not enter into commodity contracts other than to meet the Company's expected sale requirements.

At December 31, 2012 the Company did not have any outstanding derivatives in place.

Foreign currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The reporting and functional currency of the Company is United States dollars (US$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the Canadian dollar (CDN$) and the US$, and the Egyptian Pound (EGP) and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in US$ and EGP. The Company has been so far able to utilize the EGP locally for a significant portion of cash calls on both the capital expenditures and operating expenditures, thereby hedging its balance sheet exposure risk without entering into financial instruments, with the remainder being exchanged from time to time into US$. This has been reducing the Company's exposure to foreign exchange risk in 2012. The Company will continue to work with local partners to maintain this foreign exchange risk management initiative. However, we note that the collection rate in EGP has increased as Egypt's foreign currency financial situation has remained volatile, and we cannot guarantee this will be improving in 2013.

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

		US$	EGP	EUR	CAD
As at December 31, 2012	*Total per FS* [(1)]	*US$ Equivalent*			
Cash and cash equivalents	5,658	4,023	1,428	85	122
Trade and other receivables	8,072	8,003	–	25	44
Bank indebtedness	(3,000)	(3,000)	–	–	–
Trade and other payables	(7,756)	(4,181)	(3,227)	(163)	(185)
Balance sheet exposure	**2,974**	**4,845**	**(1,799)**	**(53)**	**(19)**

[(1)] *denotes Financial Statements*

The average exchange rate during the twelve months ended December 31, 2012 was 1 US$ equals $0.9996 CDN$ (2011 – 1 US$: $0.9891 CDN$) and the exchange rate at December 31, 2012 was 1 US$ equals $0.9949 Canadian dollar (2011 – 1 US$: $1.0170 CDN$).

Credit risk

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

	CARRYING AMOUNT	
	December 31, 2012	December 31, 2011
Cash and cash equivalents	**5,658**	6,125
Trade and other receivables	**8,072**	12,230
Total	**13,730**	18,355

Trade and other receivables:

All of the Company's operations are conducted in Egypt. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counter party. Receivables relating to oil and gas sales are due from Ganope and EGPC, two Government of Egypt controlled corporations and are normally collected in four to six months following production. The Company expects to collect the outstanding receivables in the normal course of operations.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

	CARRYING AMOUNT	
	December 31, 2012	December 31, 2011
Government of Egypt controlled corporations	**7,418**	11,215
Joint venture partners	**539**	677
Other	**115**	338
Total trade and other receivables	**8,072**	12,230

The Company's most significant customer, a government controlled corporation in Egypt, accounts for $3.4 million of the trade receivables at December 31, 2012 (December 31, 2011: $7.6 million).

As at December 31, 2012 and December 31, 2011, the Company's trade and other receivables is aged as follows:

	2012	2011
Current (less than 90 days)	**5,944**	7,646
Past due (more than 90 days)	**2,128**	4,584
Total	**8,072**	12,230

The balances which are past due are not considered impaired.

Subsequent to December 31, 2012 the Company collected $6.2 million from government of Egypt controlled corporations.

Cash and cash equivalents:

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

The Company defines and computes its capital as follows:

	December 31, 2012	December 31, 2011
Equity	**41,250**	68,877
Working capital [1]	**(6,645)**	(11,939)
Total capital	**34,605**	56,938

[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.

SUMMARY OF QUARTERLY RESULTS

FISCAL YEAR	2012				2011			
Financial $000's	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash, beginning of period	**5,405**	7,179	4,285	6,125	7,051	10,027	11,534	14,751
Cash, end of period	**5,658**	5,405	7,179	4,285	6,125	7,051	10,027	11,534
Working capital	**6,645**	6,194	7,197	8,077	11,939	14,290	13,988	14,670
Funds from operations	**2,083**	965	(213)	397	509	2,158	948	2,010
per share	**0.00**	0.00	(0.00)	0.00	0.00	0.00	0.00	0.01
Net income/(loss)	**(6,447)**	(19,498)	(1,377)	(786)	(14,839)	1,143	(78)	487
per share	**(0.02)**	(0.05)	(0.00)	(0.00)	(0.04)	0.00	(0.00)	0.00
Capital expenditures	**1,358**	2,445	3,140	1,955	1,892	1,592	1,626	2,914
Total assets	**52,006**	54,885	78,604	76,876	75,663	88,310	86,098	87,234
Shareholders' equity	**41,250**	47,641	67,061	68,289	68,877	83,082	81,698	81,669
Common shares outstanding *(000's)*	**376,459**	376,459	376,459	376,459	376,459	376,459	376,459	376,459
Warrants outstanding *(000's)*	**–**	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Operational								
Oil sales *(bbl/d)*	**1,273**	1,149	1,147	1,019	991	1,066	1,094	1,178
Brent oil price *($/bbl)*	**110.51**	109.28	108.44	118.47	109.38	113.35	116.84	105.87
Realized oil price *($/bbl)*	**105.52**	105.33	103.90	115.10	104.54	108.44	111.77	100.12
Royalties *($/bbl)*	**55.49**	55.96	56.29	59.53	51.72	56.13	62.46	46.90
Operating costs *($/bbl)*	**4.94**	9.13	8.36	13.64	12.07	(1.62)	10.63	9.51
Netback *($/bbl)*	**45.09**	40.24	39.25	41.93	40.75	53.93	38.68	43.71

The increase in funds from operations from Q3 2012 to Q4 2012 is due to decreased general and administrative expenses, and increased net oil revenue. The decrease in net loss from Q3 2012 to Q4 2012 is due to the impairment on exploration and evaluation assets of $19.2 million which occurred in Q3 2012. In addition, there was an impairment of $8.8 million recorded in Q4 2012 on the development and production assets in the Kom Ombo concession. Oil sales volumes have increased in Q4 due to the acquisition of NPC SHM which added 486 boe/day effective December 1, 2012. The operating costs for Q1 2012 were higher due to the provision for personnel costs of $0.4 million. This provisions was subsequently settled in Q4 2012 which resulted in reduced operating costs in Q4 2012. In Q3 2011 there was a decrease in operating expenses due to an adjustment owing to new information obtained from the Operator.

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 alleged, 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 sought 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 was subject to an arbitration agreement and an arbitration tribunal had previously been appointed to adjudicate the same subject matter as the Claim. The arbitration had 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.

Effective May 1, 2012, a settlement agreement was reached between the plaintiffs and the Company, resolving all claims by the plaintiffs in return for the release to the plaintiffs of two certificates for shares of the Company which had been issued to the plaintiffs in 2008 and which certificates were being held in escrow. No funds were paid to the plaintiffs by the company in settling this claim. The settlement agreement stipulates that all actions against the Company will be discontinued, and the plaintiffs' court action as well as the arbitration have now accordingly been formally discontinued.

SUBSEQUENT EVENTS

During the first quarter of 2013 additional testing results from the West Al Baraka field were significantly lower than anticipated. These results are an indicator of impairment for the Kom Ombo concession and as a result the carrying amount will be tested for impairment in the subsequent period.

ACCOUNTING POLICIES AND ESTIMATES

The Company is required to make judgments, assumptions and estimates in the application of accounting policies that could have a significant impact on our financial results. Actual results may differ from those estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further information on the basis of presentation and our significant accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2012.

Accounting policies

There have been no changes to the Company's accounting policies and estimates in the fourth quarter of 2012. Further information on the accounting policies and estimates can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2012.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the fourth quarter of 2012. Further information on future changes in accounting policies can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2012.

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 is paid in US dollars and EGP 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 and EGP.

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, 2012. 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, 2012.