Management's Discussion & Analysis

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 26, 2014 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, 2013. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2013 and 2012.

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 is 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 from operations:

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	**2013**	2012	**2013**	2012
Cash from operating activities	**1,435**	1,117	**2,095**	7,343
Less: changes in non-cash working capital	**1,258**	**(966)**	**(3,316)**	4,111
Funds from operations	**177**	2,083	**5,411**	3,232

For the three and twelve month periods ended December 31, 2013 the Company generated funds from operations before evaluation and exploration expense of US$0.2 million and US$5.4 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 netback 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 the exploration, development and production of oil and gas. Current activities are concentrated in Egypt, where the Company has interests in four concessions with short and long-term potential. The Company's strategy is to develop the potential of its existing concessions while seeking growth opportunities within its region of focus. The Company intends to create shareholder value by enhancing the value of its assets and through significant and rapid growth in production volumes, cash flow and earnings. The Company has not experienced any significant disruption to operations.

Following the political transition the business environment in country has improved markedly. This materialized for the Company in increased production, improved payment terms and receivables and the addition of two assets in 2013.

Strategy

Increase shareholder value through growth in production, reserves and cash flow. The Company's current portfolio offers both short term development opportunities and long-term exploration opportunities that contain significant oil and gas 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. 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 four development concessions in Egypt:

- The NW Gemsa concession ("NW Gemsa");
- The Kom Ombo concession ("Kom Ombo") – (completed November 1, 2013);
- The Shukheir Marine concession ("SHM");
- The South Ramadan concession ("South Ramadan").

In 2013 Sea Dragon was awarded a new exploration concession in the Nile Delta region of Egypt which has significant exploration potential in an area where company management has had considerable success in the past:

- The South Disouq concession ("South Disouq").

Outlook

The Company's expected capital expenditure program for 2014 is approximately US$8.8 million

The Company's forecast capital expenditure program for NW Gemsa is US$2.0 million and includes, but is not limited to, the drilling of two production wells, one water injector and the completion of one workover.

The Company's forecast capital expenditure program for SHM is US$2.5 million and includes, but is not limited to, completion of one workover and a bonus payment contingent on the 10 year extension of the concession.

The Company's capital expenditure program for South Disouq is US$4.3 million which comprises the signature bonus for the concession and pre-seismic program technical studies.

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.

$000's except per unit amounts	PRIOR QUARTER[1]	THREE MONTHS ENDED DECEMBER 31 2013	THREE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2012
OPERATIONAL					
Oil revenue	16,698	**15,062**	12,353	**61,305**	44,998
Royalties	(8,712)	**(8,377)**	(6,496)	**(32,350)**	(23,804)
	7,986	**6,685**	5,857	**28,955**	21,194
Gas revenue	103	**102**	–	**301**	–
Royalties	(43)	**(43)**	–	**(126)**	–
	60	**59**	–	**175**	–
NGL revenue	176	**167**	–	**497**	–
Royalties	(73)	**(70)**	–	**(207)**	–
	103	**97**	–	**290**	–
Operating costs	(2,192)	**(2,342)**	(578)	**(8,562)**	(3,680)
Netback	5,957	**4,499**	5,279	**20,858**	17,514
Oil sales *(bbl/d)*	1,727	**1,570**	1,273	**1,627**	1,147
Gas sales *(mcf/d)*	1,117	**1,110**	–	**825**	–
Liquids sales *(bbl/d)*	25	**24**	–	**18**	–
Total boe/d	1,938	**1,779**	1,273	**1,783**	1,147
Brent oil price *(US$/bbl)*	$110.60	**$108.70**	$110.51	**$108.21**	$111.64
Gas price *(US$/mcf)*	$1.00	**$1.00**	–	**$1.00**	–
NGL *(US$/bbl)*	$65.00	**$65.00**	–	**$65.00**	–
Realized oil price *(US$/bbl)*	$105.10	**$104.26**	$105.52	**$103.21**	$107.20
Realized gas price *(US$/mcf)*	$1.00	**$1.00**	–	**$1.00**	–
Realized NGL price *(US$/bbl)*	$77.35	**$75.18**	–	**$74.55**	–
	$95.23	**$93.65**	$105.52	**$95.42**	$107.20
Total Royalties *(US$/bbl)*	$49.52	**$51.86**	$55.49	**$50.23**	$56.71
Operating costs *(US$/bbl)*	$12.30	**$14.31**	$4.94	**$13.16**	$8.77
Netback *(US$/bbl)*	$33.26	**$27.49**	$45.09	**$32.04**	$41.72
Capital expenditures	2,059	**1,625**	1,358	**7,137**	8,355

[1] *Three months ended September 30, 2013*

MD&A

Production

Total production for the three and twelve months ended December 31, 2013 (the "Quarter") averaged 1,779 boe/d and 1,783 boe/d compared to 1,273 boe/d and 1,147 boe/d for the comparative periods in the prior year. During the Quarter, the Company drilled 2 wells. During the year ended December 31, 2013 the Company drilled 7 wells (0.7 net) in NW Gemsa as well as two workovers, acid stimulations and re-completions. The Company carried out one workover in Shukheir Marine.

Pricing

The Company is exposed to the volatility in commodity price markets for all of its production volumes and changes in the foreign exchange rate between the Canadian and US dollar and Sterling and the 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, 2013 the Company received an average price of US$104.26 per barrel for oil and US$103.21 per barrel for oil, compared to the average Brent Oil price ("Brent") of US$108.70 per barrel and US$108.21 per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a contracted discounted price levied by EGPC.

During the three and twelve months ended December 31, 2013 the Brent price ranged from a low of US$96.84 per barrel in April 2013 to a high of US$118.90 per barrel in February 2013.

The Company has been producing both gas and Natural Gas Liquids ("NGL") since April 2013. The Gas Sales Agreement was signed by all parties in January 2014. The Operator is working with EGPC to finalise prices for historic deliveries and with SUCO on the verified historical volumes. Management is using an estimate of US$1/mcf for gas and 70% of the realised oil price per bbl for liquids ("NGL"). The average realized NGL price for 2013 was US$74.55/bbl.

Crude Oil Sales

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	**2013**	2012	**2013**	2012
Crude oil sales	16,698	**15,062**	12,353	**61,305**	44,998
Per bbl	105.10	**104.26**	105.52	**103.21**	107.20

Crude oil sales for the three and twelve months ended December 31, 2013 was US$15.1 million and US$61.3 million, compared to US$12.4 million and US$45.0 million for the three and twelve months ended December 31, 2012.

Variance from prior year

For the twelve months ended December 31, 2013 the increase in revenue is due to a 41.9 percent increase in sales volumes offset by a 3.7 percent decrease in realized sale price form the prior year ending December 31, 2012. The increase in volume is due to the acquisition of NPC SHM in December 2012, as well as increased oil production in the NW Gemsa concession.

$000's	
Twelve months ended December 31, 2012	44,998
Price variance	(2,365)
Production variance	18,672
Twelve months ended December 31, 2013	**61,305**

Gas Sales

The net gas sales for the Quarter were US$0.06 million and US$0.175 million for the full year, see operational and financial highlights table above.

Natural Gas Liquids ("NGL") Sales

The net NGL sales for the Quarter were US$0.1 million and US$0.29 million for the full year, see operational and financial highlights table above.

Royalties

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2013	2012	**2013**	2012
Royalties	8,828	**8,490**	6,496	**32,683**	23,804
Per bbl	49.52	**51.86**	55.49	**50.23**	56.71
Royalties as a percent of revenue (%)	53	**55**	53	**53**	53

Due to the fiscal terms of the Company's concessions, the US$3.0 million and US$17.1 million increase in revenue for the three and twelve months ended December 31, 2013 is offset by a corresponding increase in royalties of US$2.0 million and US$8.9 million respectively. Revenue and corresponding royalties have increased in 2013 when compared to 2012 due to the acquisition of NPC SHM in December 2012 and increased production in NW Gemsa. Royalties fluctuate in Egypt due to changes in the cost oil allocation, 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 *(up to 10,000 BOPD Gross)*	10%	30%	5 years	Immediate	Nil	16.1%
NW Gemsa *(10,000 BOPD to 25,000 BOPD Gross)*	10%	30%	5 years	Immediate	Nil	15.4%
NW Gemsa – Gas and LPG	10%	30%	5 years	Immediate	Nil	18.2%
Kom Ombo	50%	40%	5 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 percent to the State in NW Gemsa and Shukheir Marine and 21 percent 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 percent per year.

Direct operating costs

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2013	THREE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2012
Direct operating costs	2,192	**2,342**	578	**8,562**	3,680
Per bbl	12.30	**14.31**	4.94	**13.16**	8.77

Direct operating costs for the three and twelve months ended December 31, 2013 were US$2.3 million (US$14.31 per bbl) and US$8.5 million (US$13.16 per bbl), compared to US$0.6 million (US$4.94 per bbl) and US$3.7 million (US$8.77 per bbl) in the comparative periods of the prior year.

The operating costs for the twelve months ended December 31, 2013 have increased due to the acquisition of NPC SHM effective December 1, 2012, partially offset by the sale of the Kom Ombo concession which completed on November 1, 2013.

Despite an increase in operating costs during 2013 compared to 2012 (2013 US$1.6 million vs 2012 US$1.3 million, a US$0.3 million increase) the operating costs per bbl for NW Gemsa has decreased. This is due to an increase in oil production as well as eleven months of gas and liquids production.

Operating costs per bbl for NW Gemsa were US$3.86 and US$3.70 respectively for the three and twelve months ended December 31, 2013.

A full twelve months of operating costs for NPC SHM (US$5.1 million) have been incurred during 2013 whereas one month of costs (US$0.4 million) was shown in the prior year due to the acquisition. SHM NPC has a higher fixed operating cost base and this has skewed the US$/bbl ratio. Operating costs per bbl for NPC SHM were US$37.45 and US$33.43 per bbl respectively for the three and twelve months ended December 31, 2013.

The sale of the Kom Ombo concession completed on November 1, 2013 consequently only one month of costs is recorded in Quarter 4 and ten months for the full year. As Kom Ombo had high operating costs per bbl this has partially mitigated, in the fourth quarter, the effects of NPC SHM.

Operating costs per bbl for Kom Ombo were US$7.77 and US$24.40 respectively for the three and twelve months ended December 31, 2013.

Current taxes

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2013	THREE MONTHS ENDED DECEMBER 31 2012	TWELVE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2012
Current taxes	1,770	**1,561**	1,366	**6,448**	5,201

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 presented gross and included in net oil revenues and deducted as an income tax expense.

Kom Ombo disposal

On November 1, 2013, the Company completed the sale of all of the issued and outstanding shares of its wholly-owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd (BVI) which held the Company's interest in the Kom Ombo concession. Kom Ombo was sold for a cash consideration of US$6.0 million and a working capital and interim period adjustment of US$1.3 million. The effective date of the transaction was March, 1 2013. The loss on disposal and the working capital and interim period adjustments are included within the consolidated financial statements for the Company.

The working capital and interim period adjustments represent i) the working capital (cash, trade receivables and trade payables) at the effective sale date of March 1, 2013, and ii) any cash related movements for the interim period of March 1 to November 1, 2013, when the sale was effectively completed.

IMPACT ON THE BALANCE SHEET

The working capital adjustments affecting the Balance Sheet are comprised of the following items:

WORKING CAPITAL ADJUSTMENT (as at the effective date)	
Bank balances	**(30)**
Trade receivables as at February 28, 2013	**3,668**
Trade payables as at February 28, 2013	**(2,293)**
TOTAL SETTLEMENT AMOUNT - due to Sea Dragon	**1,346**

INSTALMENTS RECEIVED	
Instalment one due October 30, 2013	**(283)**
Instalment two due on November 30,2013	**(283)**
SETTLEMENT AMOUNT OUTSTANDING AS AT DECEMBER 31, 2013	**780**

As per the Sale and Purchase Agreement ("SPA") for the sale of Kom Ombo, the settlement amount is to be paid in four equal instalments and is based upon the estimated working capital and interim period adjustments until such time as the final calculation has been agreed by both parties. As at December 31, 2013 two instalments had been received with two remaining outstanding. The third instalment of US$283k was received on February 19, 2014. The settlement amount of US$780k shown in the table above as outstanding at the Balance Sheet date is the remaining balance that Sea Dragon Energy expects to collect in 2014. Please reference Note 7, Trade and other receivables as the US$780k is a component of the US$7,130k.

Kom Ombo disposal (continued)

IMPACT ON THE STATEMENT OF COMPREHENSIVE LOSS

The loss on disposal of US$1.3 million appearing on the Statement of Comprehensive Loss is comprised of the following items:

- A (gain) on the sale of assets held for sale (see Note 9). This represents the excess of the net book value of those assets as at the effective date over the cash consideration received.

Cash Consideration for the assets	**6,000**
Net book value of assets held for sale as at February 28, 2013	**5,734**
(Gain) on sale of assets as at February 28, 2013	**(266)**

- A book loss of Net Income on the Statement of Comprehensive Loss (revenue and direct operating costs) and Balance Sheet working capital items (accounts receivable and partner cash calls and billings excluding cash movements) for the interim period of March 1 to November 1, 2013. This has the effect of ensuring that Sea Dragon only recognizes the economic benefit of Kom Ombo operations prior to the effective date of the sale (i.e. for January and February, 2013 only).

Revenues for the interim period	**3,049**
Opex for the interim period	**(1,193)**
Capex for the interim period	**(348)**
Sea Dragon Energy sale costs	**461**
Book Loss on the sale of Kom Ombo	**1,969**

- A (gain) on the sale of Kom Ombo materials inventory

Materials inventory sales	**(411)**

IMPACT ON THE STATEMENT OF CASH FLOWS

The effect of the disposal on the Cash Flow is a gain that appears on the Net Operating Cash Flow section and is comprised of the following items:

(GAIN) ON DISPOSAL OF KOM OMBO CONCESSION

(Gain) on sale of assets	**(266)**
Interim period capex	**348**
(Gain) on sale of materials inventory	**(411)**
(Gain) on disposal of Kom Ombo concession	**(329)**

Capital expenditures

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	**2013**	2012	**2013**	2012
Property, plant and equipment expenditures	(2,059)	**(873)**	(1,358)	**(6,385)**	(7,382)
Exploration and evaluation expenditures	–	**(752)**	–	**(752)**	(973)
	(2,059)	**(1,625)**	(1,358)	**(7,137)**	(8,355)

During the three months ended December 31, 2013, the Company spent US$1.6 million on capital expenditures which included the drilling of two wells (US$0.6 million net) and facilities projects (US$0.1 million net) in NW Gemsa as well as US$0.6 million in relation to the acquisition of the South Ramadan concession and US$0.3 million in office assets related to the opening of the London office.

During the twelve months ended December 31, 2013, the Company spent US$7.1 million on capital expenditures which included the drilling of seven wells (US$2.9 million net) workovers (US$0.2 million net) and facilities projects (US$0.3 million net) in NW Gemsa as well as one workover in SHM (US$0.5 million), US$2.3 million of capitalized operational expenditure, US$0.6 million in relation to the acquisition of the South Ramadan concession and US$0.3 million on office assets. The above figures are cash spent and does not include capex accruals of US1.1 million in regard to NW Gemsa. Please reference Note 8 (Property, plant and equipment) and Note 9 (Intangible exploration and evaluation assets) of the Financial Statements for further details.

The following table shows the cumulative costs and associated dep letion and impairment for property and equipment on all of the Company's oil and gas properties:

$000's	December 31, 2013	December 31, 2012
Oil and gas properties, at cost	**32,688**	67,985
Accumulated depletion	**(9,918)**	(12,056)
Accumulated impairment	**–**	(22,480)
	22,770	33,449
Furniture and fixtures, at cost	**490**	366
Accumulated depreciation	**(198)**	(229)
	292	137
	23,062	33,586

At December 31, 2013, for the purposes of the depletion calculation, US$2.0 million (December 31, 2012 – US$4.6 million) of future development costs are included in the calculation of cost in determining the depletion rate.

General and administrative costs

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	2013	2012	2013	2012
Wages and employee costs	92	**124**	257	**929**	1,469
Professional fees	45	**173**	226	**629**	722
Travel	11	**63**	26	**204**	126
Office expense	251	**228**	168	**899**	796
Foreign offices	994	**651**	353	**2,442**	1,527
Bank charges	4	**5**	3	**16**	23
Restructuring costs	341	**267**	–	**972**	–
Total	1,738	**1,511**	1,033	**6,091**	4,663

General and administrative ("G&A") costs for the three and twelve months ended December 31, 2013 and 2012 were US$1.5 million and US$6.1 million, compared to US$1.0 million and US$4.7 million for the comparative periods in the prior year.

Overall, G&A costs have increased when compared to the prior year in part due to one-off restructuring costs pursuant to the closure of the Calgary office at the end of December, closure of the Paris office at the end of June and the opening of the UK office at the end of August.

Professional fees comprise audit, tax, legal, G&G consulting, reserves reporting and general consulting.

The foreign office costs have increased for both the three and twelve month periods ended December 31, 2013, due to keeping multiple offices open concurrently during the restructuring period.

Stock based compensation

Stock-based compensation expense represents 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, 2013 and 2012, was US$0.2 million and US$0.6 million compared to US$0.1 million and US$0.5 million in the comparative periods in the prior year.

On June 7, 2013 there were 15,350,000 options cancelled. Upon cancellation, the unvested portion of the options was accelerated and recognized immediately. Effective October 11, 2013 the Company agreed to re-issue 4,400,000 options that were cancelled on June 7, 2013 on the same terms with a price of US$0.13 per share expiring July 8, 2016.

Pursuant to Note 13, Stock Options, the Company cancelled 4,660,000 options effective January 29, 2014, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, section 2.09.

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

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	**2013**	2012	**2013**	2012
Depletion, depreciation and amortization	1,210	**645**	1,303	**4,734**	4,215
Per bbl	7.70	**4.51**	11.13	**7.97**	10.04

For the three and twelve months ended December 31, 2013, depletion, depreciation and amortization ("DD&A") was US$0.6 million and US$4.7 million, compared to US$1.3 million and US$4.2 million in the comparative periods in the prior year.

The depletion for the three and twelve months ended December 31, 2013 has decreased from prior year due to the further impairment and subsequent disposal of the Kom Ombo concession.

As an asset held for sale the Kom Ombo concession was depleted for January and February 2013 only (US$0.4million).

There is also a full year of DD&A in 2013 for NPC SHM (US$2.4million).

Net Earnings

For the three and twelve months ended December 31, 2013, the Company recorded a net loss of US$1.1 million and US$7.7 million respectively, compared to a net loss of US$6.4 million and US$28.1 million in the comparative periods of the prior year

The increase in earnings is due to the Kom Ombo asset being fully impaired prior to the sale effective October 31, 2013, a full year of NPC SHM being reflected in the records, increased oil production and eleven months of condensates, gas and LPG from the NW Gemsa concession.

In addition to this, there was also a decrease in exploration and evaluation expense and finance expense offset by increased direct operating expenses, stock based compensation, foreign exchange losses, current income tax and general and administrative 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.

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
Trading statistics	Prior Quarter	**2013**	2012	**2013**	2012
High (CDN)	$0.10	**$0.08**	$0.07	**$0.12**	$0.11
Low (CDN)	$0.07	**$0.06**	$0.05	**$0.06**	$0.04
Average Volume	404,992	**592,834**	505,993	**470,422**	1,285,316

The following table summarizes the outstanding common shares and options as at March 26, 2014, December 31, 2013 and December 31, 2012.

Outstanding as at:	March 26, 2014	December 31, 2013	December 31, 2012
Common shares	376,459,358	376,459,358	376,459,358
Options	20,000,000	24,660,000	35,610,000

Pursuant to Note 13, Stock Options, the Company cancelled 4,660,000 options effective January 29, 2014, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, section 2.09.

As at December 31, 2013 the Company had no warrants outstanding. The warrants expired on November 6, 2012.

The following table summarizes the outstanding options as at December 31, 2013:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
Exercise price range	Number of options	Remaining contractual life	Number of options	Remaining contractual life
$0.10	**24,010,000**	**3.6 years**	**11,826,647**	**3.4 years**
$0.19 to $0.39	**550,000**	**1.5 years**	**550,000**	**1.5 years**
$0.40 to $0.50	**100,000**	**0.9 years**	**–**	**–**
	24,660,000	**3.5 years**	**12,376,647**	**3.3 years**

Capital Resources

As at December 31, 2013 the Company had working capital of approximately US$9.9 million including cash on hand of US$4.3 million. The Company expects to fund its 2014 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, 2013, the Company had US$6.9 million in accounts receivable outstanding compared to US$8.1 million as at December 31, 2012. Approximately US$4.6 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 US$2.1 million.

The following table outlines the Company's working capital. Working capital is defined as current assets less current liabilities.

$000's	December 31, 2013	December 31, 2012
Current Assets		
Cash and cash equivalents	**4,287**	5,658
Trade and other receivables	**7,130**	8,072
Inventory	**3,279**	3,301
Deferred transaction costs	**371**	370
Assets held for sale	**–**	–
Current Assets	**15,067**	17,401
Current Liabilities		
Bank indebtedness	**–**	3,000
Trade and other payables	**5,188**	7,756
Current Liabilities	**5,188**	10,756
Working Capital	**9,879**	6,645

The following table outlines the Company's sources and uses of cash for the three and twelve months ended December 31, 2013 and 2012:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	**2013**	2012	**2013**	2012
Sources:					
Funds from operations	2,322	**177**	2,082	**5,411**	3,232
Cash acquired in Shukheir Marine Acquisition	–	**–**	731	**–**	731
Cash from disposal of materials inventory	–	**411**	–	**411**	–
Cash from disposal of office assets	–	**11**	–	**11**	–
Cash from disposal of Kom Ombo concession	–	**6,566**	–	**6,566**	–
Proceeds from bank facility	3,359	**1,001**	–	**6,360**	5,000
Effect of foreign exchange on cash and cash equivalents	11	**(608)**	13	**(317)**	64
Changes in non-cash working capital	–	**–**	–	**–**	4,111
	5,692	**7,558**	2,826	**18,442**	13,138
Uses:					
Property, plant and equipment expenditures	(2,059)	**(873)**	(1,359)	**(6,385)**	(7,382)
Exploration and evaluation expenditures	–	**(752)**	–	**(752)**	(973)
Acquisition of Shukheir Marine concession	–	**–**	(250)	**–**	(250)
Repayment of bank facility	(3,056)	**(4,204)**	–	**(9,360)**	(5,000)
Changes in non-cash working capital	(1,509)	**1,258**	(964)	**(3,316)**	–
	(6,624)	**(4,571)**	(2,573)	**(19,813)**	(13,605)
Increase (decrease) in cash	(932)	**2,987**	253	**(1,371)**	(467)
Cash and cash equivalents at beginning of period	2,232	**1,300**	5,405	**5,658**	6,125
Cash and cash equivalents at end of period	1,300	**4,287**	5,658	**4,287**	5,658

The Company's funds from operations have decreased by US$2.1 million from the prior quarter due to the book adjustment on disposal of the Kom Ombo concession for the interim period, March to October 2013. The Company received US$7.0 million from the disposal of assets, US$6.6 million from the sale of the Kom Ombo concession and US$0.4 million from the sale of materials inventory and the Calgary office assets. These funds were used in part to repay the bank facility of US$4.2 million with the Company being debt free as at December 31, 2013. Cash and cash equivalents at the end of the period will be utilized to fund the Company's 2014 capital program.

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 could 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 optimizing 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, 2013 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$, the Egyptian Pound (EGP) and the US$ and Sterling (GBP) 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 to fund the local office general and administrative expenses as well as 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 2013. 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 improve in 2014.

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

As at December 31, 2013	Total per FS [1]	US$	EGP	EUR	CAD	GBP
	US$ Equivalent					
Cash and cash equivalents	4,287	3,372	198	47	161	509
Trade and other receivables	7,130	6,937	(5)	33	15	150
Trade and other payables	(5,188)	(1,969)	(2,670)	(43)	(313)	(193)
Balance sheet exposure	**6,229**	**8,340**	**(2,477)**	**37**	**(137)**	**466**

[1] *denotes Financial Statements*

The average exchange rates during the year ended December 31, 2013 were 1 US$ equals:

	AVERAGE: 1 JANUARY 2013 TO 31 DECEMBER 2013			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Period average	1.0298	0.6395	0.7532	6.8359

	AVERAGE: 1 JANUARY 2012 TO 31 DECEMBER 2012			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Period average	0.9996	0.631	0.7781	6.0325

The exchange rates at December 31, 2013 were 1 US$ equals:

	PERIOD END: 31 DECEMBER 2013			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Dec 31, 2013	1.0694	0.6064	0.7263	6.9124

	PERIOD END: 31 DECEMBER 2012			
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Dec 31, 2012	0.9966	0.6185	0.7565	6.0529

Trade and other payables:

The foreign currency risk from a trade and other payables perspective is resultant in the fact that the Company's operations are conducted in Egypt and its corporate office is now in London.

As at December 31, 2013 and 2012, the Company's trade and other payables is as follows:

	December 31, 2013	December 31, 2012
Current		
Trade payables	**2,787**	6,993
Accruals	**2,175**	588
Other payables	**226**	175
	5,188	7,756

Trade payables mainly represent outstanding invoices due for payment in regard to the Shukheir Marine concession, US$2.7 million and are denominated in EGP.

The increase in accruals relates to an increase in work performed, but not cash called, in regard to the NW Gemsa concession and reported to the company by the Operator. The increase primarily relates to the drilling of 1 well underway over the year end (Al Amir 19 US$0.2 million) as well as Al Amir 15 (US$0.3 million), facilities projects (US$0.3 million) and opex (US$0.4 million).

In order to mitigate foreign currency risk, trade payables in relation to Shukheir Marine are settled in EGP utilizing funds received in settlement of trade receivables. Regarding NW Gemsa, the operator sends all information to Sea Dragon in US$. However cash calls are settled in EGP utilizing funds in settlement of trade receivables.

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, 2013	December 31, 2012
Cash and cash equivalents	**4,287**	5,658
Trade and other receivables	**7,130**	8,072
Total	**11,417**	13,730

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 EGPC and Ganope, two Government of Egypt controlled corporations and are normally collected in two to four 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:

	December 31, 2013	December 31, 2012
Government of Egypt controlled corporations	**4,629**	7,418
Joint venture partners	**579**	539
Other	**1,922**	115
Total capital	**7,130**	8,072

The Company's most significant customers, EGPC and Ganope, government controlled corporations in Egypt account for US$2.8 million and US$1.8 million respectively of the trade receivables at December 31, 2013 (December 31, 2012: US$7.0 million).

As at December 31, 2013 and 2012, the Company's trade and other receivables is aged as follows:

	December 31, 2013	December 31, 2012
Current (less than 90 days)	**6,848**	5,944
Past due (more than 90 days)	**282**	2,128
Total	**7,130**	8,072

The balances which are past due are not considered impaired.

Subsequent to December 31, 2013 the Company collected US$2.1 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 Company's 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, 2013	December 31, 2012
Equity	**34,341**	41,250
Working capital [1]	**(9,879)**	(6,645)
Total	**24,462**	34,605

(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.

The working capital has increased in December 31, 2013 when compared to December 31, 2012 due to the sale of the Kom Ombo concession, the repayment of the bank facility making the company debt free and lower trade payables.

SUMMARY OF QUARTERLY RESULTS

FISCAL YEAR	2013				2012			
Financial $000's	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash, beginning of period	**1,300**	2,232	5,598	5,658	5,405	7,179	4,285	6,125
Cash, end of period	**4,287**	1,300	2,232	5,598	5,658	5,405	7,179	4,285
Working capital	**9,879**	12,209	6,393	6,806	6,645	6,194	7,197	8,077
Funds from operations	**177**	2,322	949	1,962	2,083	965	(213)	397
per share	**0.00**	0.01	0.00	0.01	0.00	0.00	(0.00)	–
Net income/(loss)	**(1,071)**	845	(662)	(6,820)	(6,447)	(19,498)	(1,377)	(786)
per share	**0.00**	(0.00)	(0.00)	(0.02)	(0.02)	(0.05)	(0.00)	(0.00)
Capital expenditures	**1,625**	2,059	1,635	1,819	1,358	2,445	3,140	1,955
Total assets	**39,295**	43,678	43,184	44,711	52,006	54,885	78,604	76,876
Shareholders' equity	**34,341**	35,251	34,220	34,605	41,250	47,641	67,061	68,289
Common shares outstanding *(000's)*	**376,459**	376,459	376,459	376,459	376,459	376,459	376,459	376,459
Warrants outstanding *(000's)*	**–**	–	–	–	–	30,000	30,000	30,000
Operational								
Oil sales *(bbl/d)*	**1,570**	1,727	1,716	1,495	1,273	1,149	1,147	1,019
Gas sales *(bbl/d)*	**1,110**	**1,117**	**1,058**	**–**	**–**	**–**	**–**	**–**
NGL sales *(bbl/d)*	**24**	**25**	**24**	**–**	**–**	**–**	**–**	**–**
Total *boe/d*	**1,779**	**1,938**	**1,916**	**1,495**	**1,273**	**1,149**	**1,147**	**1,019**
Brent oil price *($/bbl)*	**108.70**	110.60	101.47	112.07	110.51	109.28	108.44	118.47
Realized oil price *($/bbl)*	**104.26**	105.10	97.64	106.28	105.52	105.33	103.90	115.10
Realized gas price *(US$/mcf)*	**1.00**	1.00	1.00	–	–	–	–	–
Realized NGL price *(US$/bbl)*	**75.18**	65.00	65.00	–	–	–	–	–
Net realized price *($/bbl)*	**93.65**	95.07	88.81	–	–	–	–	–
Royalties *($/bbl)*	**51.86**	49.52	45.88	54.76	55.49	55.96	56.29	59.53
Operating costs *($/bbl)*	**14.31**	12.30	13.76	12.11	4.94	9.13	8.36	13.64
Netback *($/bbl)*	**27.49**	33.26	29.17	39.42	45.09	40.24	39.25	41.93

SUBSEQUENT EVENTS

During the first quarter of 2014 Sea Dragon Energy Inc. issued a press release announcing the well results of Al Amir S.E. 19, a development well in the N W Gemsa concession. The well was drilled to a depth of 10,000 feet and encountered both Shagar and Rahmi oil reservoirs. The well has been completed as an oil producer and has flowed on test light 42.3° API oil at a rate of 1,365 BOPD with 1.405 MMSCFD of associated gas. The well is currently shut-in for a build-up but will be placed on production as soon as the rig moves off location.

On February 12, 2014 Sea Dragon Energy Inc. paid a signature bonus of US$4 million related to the acquisition of the South Disouq concession.

On March 19, 2014 the new South Disouq concession was ratified by the government. The work program (3D seismic and one well) has been supported by the issuance of a guarantee for US$9 million.

Pursuant to Note 13 Stock Options of the Financial Statements, the Company cancelled 4,660,000 options effective January 29, 2014, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, section 2.09.

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, 2013.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective January 2013.

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, 2013.

IFRS 10 – CONSOLIDATION

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11– JOINT ARRANGEMENTS

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13– FAIR VALUE MEASUREMENT

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

AMENDMENTS TO OTHER STANDARDS

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

There has been no material change to the Company's financial statements as a result of the first time application of these standards.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for the annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 – Financial Instruments

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

The Company has assessed the impact of these standards and determined that it has no impact on the financial statements.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the twelve months of 2013. Further information on future changes in accounting policies can be found in the notes to the Consolidated Financial Statements and Annual MD&A for the year ended December 31, 2013.

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 compared to 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 Egyptian pounds ("EGP") 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 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

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.

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

Disruptions in Production

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

Foreign Investments

All of the Company's oil investments are located outside of Canada. These investments are subject to the risks associated with foreign investment including tax increases, royalty increases, re-negotiation of contracts, currency exchange fluctuations and political uncertainty. The jurisdiction in which the Company operates, Egypt, has a well-established fiscal regime and there are some improved fiscal terms to encourage investments. Sea Dragon will be paid in US dollars on its oil and gas sales.

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds, EGP and GBP.

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 period ended September 30, 2013. 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, 2013.