Management's Discussion & Analysis

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated March 27, 2015 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, 2014. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the years ended December 31, 2014 and 2013.

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	**2014**	2013	**2014**	2013
Cash from operating activities	**1,121**	1,435	**504**	2,095
Less: changes in non-cash working capital	**2,382**	1,258	**(1,053)**	(3,316)
Funds (used in)/generated by operations	**(1,261)**	177	**1,557**	5,411

For the three and twelve month periods ended December 31, 2014 the Company used and generated funds from operations before evaluation and exploration expense of US$1.3 million and US$1.6 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 WORK PROGRAM

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 growth in production volumes, cash flow and earnings.

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 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 three development and one exploration concession in Egypt:

- The NW Gemsa Concession ("NW Gemsa");
- The Shukheir Marine Concession ("SHM") – now relinquished – see Subsequent Events;
- The South Ramadan Concession ("South Ramadan").
- The South Disouq Concession ("South Disouq").

Work Program

The Company's expected capital expenditure program for 2015 is approximately US$1.9 million;

The Company's forecast capital expenditure program for NW Gemsa in 2015 is US$1.7 million and includes, but is not limited to, the drilling of three production wells and one water injector recompletion;

The Company's capital expenditure program for South Disouq in 2015 is US$0.2 million and comprises the annual training fee for the concession.

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.

$000's except per unit amounts	PRIOR QUARTER[1]	THREE MONTHS ENDED DECEMBER 31 2014	THREE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2013
OPERATIONAL					
Oil revenue	10,974	**8,115**	15,062	**46,126**	61,305
Royalties	(6,157)	**(4,208)**	(8,377)	**(26,043)**	(32,350)
Net oil revenue	4,817	**3,907**	6,685	**20,083**	28,955
Gas revenue	79	**–**	102	**257**	301
Royalties	(34)	**(208)**	(43)	**(319)**	(126)
Net gas revenue	45	**(208)**	59	**(62)**	175
NGL revenue	133	**–**	167	**415**	497
Royalties	(55)	**(344)**	(70)	**(517)**	(207)
Net NGL revenue	78	**(344)**	97	**(102)**	290
Total Net Revenue	4,940	**3,355**	6,841	**19,919**	29,420
Operating costs	(2,639)	**(1,972)**	(2,342)	**(7,991)**	(8,562)
Netback *(pre tax)*	2,301	**1,383**	4,499	**11,928**	20,858
Oil sales *(bbl/d)*	1,248	**1,239**	1,570	**1,346**	1,627
Gas sales *(mcf/d)*	855	**–**	1,110	**705**	825
Liquids sales *(bbl/d)*	21	**–**	24	**16**	18
Total boe/d	1,412	**1,239**	1,779	**1,479**	1,783
Brent oil price *(US$/bbl)*	$101.87	**$76.37**	$108.70	**$98.94**	$108.21
Realized oil price *(US$/bbl)*	$95.56	**$71.18**	$104.26	**$93.92**	$103.21
Realized gas price *(US$/mcf)*	$1.00	**$0.00**	$1.00	**$1.00**	$1.00
Realized NGL price *(US$/bbl)*	$68.45	**$0.00**	$75.18	**$71.47**	$74.55
Net realized price *(US$/boe)*	$86.12	**$71.18**	$93.65	**$86.70**	$95.42
Total Royalties *(US$/boe)*	$48.09	**$41.75**	$51.86	**$49.79**	$50.23
Operating costs *(US$/boe)*	$20.31	**$17.30**	$14.31	**$14.80**	$13.16
Netback *(US$/boe)*	$17.72	**$12.13**	$27.49	**$22.11**	$32.04
Capital expenditures	(339)	**(1,204)**	1,625	**4,315**	7,137

[1] *Three months ended September 30, 2014*

Oil Sales Volumes

Total oil sales volumes for the three and twelve months ended December 31, 2014 averaged 1,239 bbl/d and 1,346 bbl/d compared to 1,570 bbl/d and 1,627 bbl/d for the comparative periods in the prior year.

59.2% of the full year variance when compared to 2013 relates to the sale of the Kom Ombo concession. The completion of the sale took place on November 1, 2013 and the Company recognized 10 months of volumes in 2013.

The North West Gemsa concession reached its peak rate and volumes have now started to decline.

Shukheir Marine experienced a paraffin block in the tubing string of the GA1 well in the Gamma field and this resulted in lost production of 108 days with the well coming back on stream in November 2014. The concession was also impacted by the failure of the SHB-5 well in the Shukheir field during Qtr. 3 2014.

During the year ended December 31, 2014 the Company drilled 3 wells (0.3 net) in the Al Amir SE field of NW Gemsa as well as a 10 well workover program. The Company carried out 2 workovers in Shukheir Marine; the GA-1 well in the Gamma field and the SHB-5 well in the Shukheir field.

The crude oil sales volumes by concession are shown in the table below:

CRUDE OIL SALES VOLUMES		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's except per unit amounts	PRIOR QUARTER	**2014**	2013	**2014**	2013
NW Gemsa	89,411	**84,861**	103,277	**368,521**	381,876
Shukheir Marine	25,429	**29,138**	35,643	**122,605**	151,189
Kom Ombo	–	**–**	5,540	**–**	60,895
Total crude oil sales *(bbls)*	114,840	**113,999**	144,460	**491,126**	593,960

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, Sterling and the US dollar and Egyptian pound and the US dollar for certain general and administrative expenses. The Operational and Financial Highlights table on the previous page 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, 2014 the Company received an average price per barrel of oil of US$71.18 and US$93.92 compared to the average Brent Oil price ("Brent") of US$76.37 and US$98.94 per barrel; a discount of US$5.19 and US$5.02 per barrel respectively. 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, 2014 the Brent price ranged from a low of US$55.27 per barrel on December 31 2014 to a high of US$115.19 per barrel on June 19, 2014. The decrease in the oil price is due to a number of factors, namely increased production particularly from OPEC countries and US shale producers, lower demand as a result of lower growth in countries such as China and the discontinuation of quantitative easing by the U.S. Federal Reserve which has affected funds to emerging markets and thus their demand for oil. At this time, Sea Dragon does not hedge any of its production.

The Company has been producing and selling both Gas and Natural Gas Liquids ("NGL") since February 2013 from the NW Gemsa concession. The Gas Sales Agreement was signed by all parties in January 2014 and the operator is in the process of finalizing the invoicing procedure with EGPC. As the matter has not been resolved prior to the issuance of the 2014 Annual Report no provision for Qtr. 4 2014 revenue has been made. No further revenue will be recognized until the issuance of the first billing.

Crude Oil Sales

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
Crude oil sales	10,974	**8,115**	15,062	**46,126**	61,305
Per bbl	95.56	**71.18**	104.26	**93.92**	103.21

Crude oil sales for the three and twelve months ended December 31, 2014 were US$8.1 million and US$46.1 million, compared to US$15.1 million and US$61.3 million for the three and twelve months ended December 31, 2013.

The crude oil sales per concession were:

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
NW Gemsa	8,590	**6,112**	10,891	**34,944**	39,864
Shukheir Marine	2,384	**2,003**	3,585	**11,182**	15,052
Kom Ombo	–	**–**	586	**–**	6,389
Total crude oil sales	10,974	**8,115**	15,062	**46,126**	61,305

Variance from prior year

For the twelve months ended December 31, 2014 the decrease in revenue is due to a 9% decrease in realized sales price and a 17.3% decrease in sales volume from the prior year ending December 31, 2013.

The decrease in the sales volume compared to the prior year can be partially contributed to the sale of the Kom Ombo concession, with a completion date of November 1, 2013. Production was also affected by the North West Gemsa concession reaching its peak rate during Qtr. 3, 2014 and production disruption at Shukheir Marine as previously described.

$000's	
Twelve months ended December 31, 2013	61,305
Price variance	(4,563)
Production variance	(10,616)
Twelve months ended December 31, 2014	**46,126**

Gas and Natural Gas Liquids ("NGL") Sales

No provision was made for Gas or NGL sales during the Qtr. 4, 2014. However during December 2014 a provision was made for excess cost (recorded within Royalties) in relation to the accrued revenue for gas and NGL. This provision covered the period February 2013 to September 2014 and amounted to US$0.6 million, or 80% of the inception to date recognized net revenue. The provision of US$0.6 million is split equally between 2014 and 2013 at US$0.3 million per annum and was provided upon net revenues in 2014 and 2013 of US$0.4 million per annum.

The operator is still in the process of finalizing the invoicing procedure with EGPC and no further gas or NGL sales will be recognized until the issuance of the first billing. See operational and financial highlights table above.

Royalties

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2014	THREE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2013
Royalties	6,246	**4,760**	8,490	**26,879**	32,683
Per boe	48.09	**41.75**	51.86	**49.79**	50.23
Royalties as a percent of revenue (%)	56	**59**	55	**57**	53

Due to the fiscal terms of the Company's concessions, the US$6.9 million and US$15.2 million decrease in crude oil sales for the three and twelve months ended December 31, 2014 is offset by a corresponding decrease in royalties of US$3.4 million and US$5.5 million respectively. Revenue and corresponding royalties have decreased in 2014 due to a slump in the price of crude oil and the sale of the Kom Ombo concession.

Royalties were also impacted during Qtr. 4, 2014 by a provision for excess costs in respect of condensates (shown within Oil revenue), Gas and NGL. This provision covered the period February 2013 to September 2014 and amounted to US$0.8 million, or 80% of the inception to date recognized net revenue. The provision of US$0.8 million is split equally between 2014 and 2013 at US$0.4 million per annum and was provided upon net revenues in 2014 and 2013 of US$0.5 million per annum.

The 80% provision was based upon the latest information received from the operator of the NW Gemsa concession. As the operator is in the process of finalizing the billing process, Cost Recovery and Recoverable Cost Calculation Statements have yet to be submitted to EGPC.

Royalties fluctuate in Egypt from quarter to quarter due to changes in the amount of cost oil. The Concession agreements allow for the recovery of operating and capital costs through a cost oil allocation which has an impact on the government share of production 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%
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 its 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.*

(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		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
Direct operating costs	2,639	**1,972**	2,342	**7,991**	8,562
Per bbl	20.31	**17.30**	14.31	**14.80**	13.16

Direct operating costs for the three and twelve months ended December 31, 2014 were US$2.0 million (US$17.30 per bbl) and US$8.0 million (US$14.80 per bbl), compared to US$2.3 million (US$14.31 per bbl) and US$8.6 million (US$13.16 per bbl) in the comparative periods of the prior year.

The operating costs for the twelve months ended December 31, 2014 have decreased by US$0.6 million compared to 2013; a 6.7% decrease. The decrease in direct operating costs was due to a combination of the sale of the Kom Ombo concession which completed on November 1, 2014, this accounted for costs of US$1.5 million and US$0.2 million for NW Gemsa as a result of the reversal of accruals for the PetroAmir accounts payable. This was partially offset by an increase in direct operating costs of US$1.1 million for the Shukheir Marine concession. Increases for the Shukheir Marine concession occurred in Shukheir Bay costs (US$0.5 million), other operating costs (US$0.3 million) and indirect expenses (US$0.3 million).

The direct operating costs per concession were:

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
NW Gemsa	672	**266**	873	**1,831**	2,023
Shukheir Marine	1,967	**1,706**	1,336	**6,160**	5,054
Kom Ombo	–	**–**	133	**–**	1,485
Total direct operating costs by concession	2,639	**1,972**	2,342	**7,991**	8,562

Current taxes

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
Current taxes	1,138	**814**	1,561	**4,707**	6,448

Pursuant to the terms of the Company's concession agreements, the 40.4% 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.

The current taxes per concession were:

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
NW Gemsa	967	**671**	1,221	**3,906**	4,456
Shukheir Marine	171	**143**	256	**801**	1,077
Kom Ombo	–	**–**	84	**–**	915
Total current taxes by concession	1,138	**814**	1,561	**4,707**	6,448

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 were included in the consolidated financial statements for the Company as at December 31, 2013.

Since the issuance of the 2013 Annual Report additional previously unbilled historic operating costs have been reported by the operator of the Kom Ombo concession, which have a retrospective impact on i) the working capital and interim period adjustment and ii) the loss on sale. These costs were included in the November 2013 joint operating statement issued by the operator; which was after the completion of the sale by Sea Dragon. The completion of the sale took place on November 1, 2013.

The additional historic costs have now been resolved and a settlement agreement reached which resulted in an additional loss on disposal for Kom Ombo of US$0.4 million during 2014.

Capital expenditures

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	**2014**	2013	**2014**	2013
Property, plant and equipment expenditures	285	**(261)**	(873)	**(1,815)**	(6,385)
Exploration and evaluation expenditures	54	**1,465**	(752)	**(2,500)**	(752)
	339	**1,204**	(1,625)	**(4,315)**	(7,137)

During the three months ended December 31, 2014, the Company had negative additions of US$1.2 million on capital expenditure. The Company had PP&E additions of US$0.3 million for the NW Gemsa concession and negative additions of US$1.5 million in E&E related to the South Disouq concession.

No wells were drilled during the quarter in the NW Gemsa concession; the PP&E represents expenditure on the AASE-19 well.

During the twelve months ended December 31, 2014, the Company incurred US$1.8 million on PP&E and US$2.5 million on E&E.

PP&E of US$1.4 million related to the NW Gemsa concession and the drilling of 3 wells (AASE-19, AASE-21 and AASE-22) with capital expenditure of US$0.9 million, a 10 well work-over program of US$0.4 million and residual project costs of US$0.1 million.

The remaining PP&E of US$0.4 million was incurred by the Shukheir Marine concession as a result of the apportionment of indirect costs and remedial work on Shukheir Bay 5.

The E&E additions of US$2.5 million were related to the South Disouq concession and an explanation can be found below the Intangible Exploration and Evaluation Assets section on the next page.

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

$000's	**DECEMBER 31, 2014**	December 31, 2013
Oil and gas properties, at cost	**34,474**	32,688
Accumulated depletion and impairment	**(17,218)**	(9,918)
	17,256	22,770
Furniture and fixtures, at cost	**519**	490
Accumulated depreciation	**(357)**	(198)
	162	292
	17,418	23,062

At December 31, 2014, for the purposes of the depletion calculation US$ 0.6 million (December 31, 2013 – US$2.0 million) of future development costs are included in the calculation of cost in determining the depletion rate.

Impairment Test

At the reporting date an impairment test was triggered due to falling crude oil prices. The impairment test was carried out on the NW Gemsa fields only as Shukheir Marine was fully depleted at the Balance Sheet date. The impairment test was carried out in accordance with the accounting policy note stated in Note 3. The recoverable amounts of the fields have been determined based on value-in-use calculations. These calculations require the use of estimates. The present values of future cash flows was computed by applying forecast prices of oil and gas reserves to estimated future production of 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 to the underlying cash generating unit ('CGU').

Based on this calculation there is an impairment recorded for the NW Gemsa fields of US$2.8 million.

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

2015	2016	2017	2018	2019	2020
$62.00	$69.00	$72.50	$74.50	$80.00	$90.00

If the discount factor applied to the impairment test were to increase by 5% above the current factor of 15%, the impairment of the NW Gemsa fields would be US$4.4 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 NW Gemsa fields would be US$0.6 million.

Intangible Exploration and Evaluation Assets

The following table shows the cumulative costs for the intangible exploration and evaluation assets on all the Company's oil and gas properties:

$000's	**DECEMBER 31, 2014**	December 31, 2013
Exploration and evaluation assets, beginning of period	**752**	752
Additions	**2,500**	–
Exploration well write off	**(177)**	–
Exploration and evaluation assets, end of period	**3,075**	752

The E&E additions of US$2.5 million were incurred by the South Disouq concession and relate to i) the signature bonus of US$4.0 million, ii) G&G technical work of US$0.1 million and iii) US$0.6 million of transfer costs associated with the assignment and farm out of the concession. This was offset by the joint operation billings sent to the farminee of South Disouq for US$2.1 million and can be found under trade and other receivables. Further details can also be found under Subsequent Events.

At December 31, 2014 the Company expensed US$0.2 million related to the drilling of the Shehab-2 exploration well, in the NW Gemsa concession, as the well failed to flow and was therefore abandoned.

General and administrative costs

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
		2014	2013	**2014**	2013
Wages and employee costs	537	**574**	446	**2,191**	2,352
Consultants - inc. PR/IR	74	**348**	235	**729**	556
Legal fees	111	**(53)**	19	**218**	218
Audit, tax and accounting services	66	**88**	90	**250**	321
Public company fees	90	**51**	40	**209**	216
Travel	128	**127**	79	**371**	451
Office expenses	133	**115**	287	**455**	826
IT expenses	50	**54**	40	**228**	153
Bank charges	11	**11**	7	**34**	26
Restructuring costs	–	**–**	268	**–**	972
Total	1,200	**1,315**	1,511	**4,685**	6,091

General and administrative ("G&A") costs for the three and twelve months ended December 31, 2014 and 2013 were US$1.3 million and US$4.7 million, compared to US$1.5 million and US$6.1 million for the comparative periods in the prior year.

General and administrative ("G&A") costs for 2014 were US$4.7 million, which represented a decrease of US$1.4 million compared to 2013. Removing the 2013 restructuring costs of US$1.0 million, the decrease is US$0.4 million or 8.5%. The decrease is due to lower audit, tax and accounting services, travel and office expenses offset by higher IT expenses.

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, 2014 and 2013, was US$0.1 million and US$0.4 million compared to US$0.2 million and US$0.6 million in the comparative periods in the prior year.

Effective January 29, 2014 the Company cancelled 4,660,000 options, in accordance with the provisions of the Stock Option Plan dated March 26, 2008, Article 2, Section 2.09.

Pursuant to the Board Resolution effective June 20, 2014 the Company granted Options to acquire 13,700,000 common shares at an exercise price of CAD$0.075 per common share.

Effective September 30, 2014 the Company cancelled 100,000 options, on the final day of the employee's notice period.

Effective April 1, 2015 the Company will cancel a further 4,000,000 options, 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")

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2014	THREE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2013
Depletion, depreciation and amortization	868	**977**	645	**4,639**	4,734
Per bbl	6.68	**8.57**	4.51	**8.59**	7.97

For the three and twelve months ended December 31, 2014, depletion, depreciation and amortization ("DD&A") was US$1.0 million and US$4.6 million, compared to US$0.6 million and US$4.7 million in the comparative periods in the prior year.

The DD&A per concession was:

$000's	PRIOR QUARTER	THREE MONTHS ENDED DECEMBER 31 2014	THREE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2013
NW Gemsa	566	**599**	535	**2,398**	1,832
Shukheir Marine	263	**340**	531	**2,083**	2,391
Kom Ombo	–	**–**	(483)	**–**	413
Office assets	39	**38**	62	**158**	98
Total	868	**977**	645	**4,639**	4,734

The depletion for the three months ended December 31, 2014 increased from the prior year due to the adjustment made regarding the Kom Ombo concession and the Shukheir Marine concession being fully depleted. The Kom Ombo concession was held for sale and an adjustment was made during Qtr. 4, 2014 to reflect this.

The depletion for the twelve months ended December 31, 2014 has decreased from the prior year due to the disposal of Kom Ombo and Shukheir Marine being fully depleted partially offset by higher depletion in NW Gemsa due to a higher UOP rate for the Al Amir field.

Net Earnings

For the three and twelve months ended December 31, 2014, the Company recorded a net loss of US$6.5 million and US$9.0 million respectively, compared to a net loss of US$1.1 million and US$7.7 million in the comparative periods of the prior year.

The increase in the loss for the three months ended December 31, 2014, when compared to the prior year, is primarily as a result of the fall in crude oil prices, an impairment on the NW Gemsa fields of US$2.8 million, and the impairment of the Company's materials inventory of US$1.2 million.

The loss for the year ended December 31, 2014 has increased when compared to the prior year due to lower revenue as a result of falling crude oil prices, an impairment of US$2.8 million for the NW Gemsa fields and an impairment of the Company's materials inventory to record them at the lower of cost and net realizable value. This has been offset by a decrease in operating costs 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.

Trading statistics	Prior Quarter	THREE MONTHS ENDED DECEMBER 31 2014	THREE MONTHS ENDED DECEMBER 31 2013	TWELVE MONTHS ENDED DECEMBER 31 2014	TWELVE MONTHS ENDED DECEMBER 31 2013
High *(CDN)*	$ 0.075	**$ 0.065**	$ 0.08	**$ 0.095**	$ 0.12
Low *(CDN)*	$ 0.050	**$ 0.030**	$ 0.06	**$ 0.030**	$ 0.06
Average Volume	315,356	**436,340**	592,834	**350,801**	470,422

The following table summarizes the outstanding common shares and options as at March 26, 2015, December 31, 2014 and December 31, 2013.

Outstanding as at:	March 26, 2015	December 31, 2014	December 31, 2013
Common shares	376,459,358	376,459,358	376,459,358
Options	33,200,000	33,200,000	24,660,000

The following table summarizes the outstanding options as at December 31, 2014:

	OUTSTANDING OPTIONS		VESTED OPTIONS	
Exercise price range	Number of options	Remaining contractual life	Number of options	Remaining contractual life
$0.075 to $0.13	**33,200,000**	**3.4 years**	**17,083,327**	**2.7 years**

Capital Resources

As at December 31, 2014 the Company had working capital of approximately US$6.1 million including bank balances of US$3.0 million and restricted cash of US$6.0 million. The Company expects to fund its 2015 capital program through funds from operations and cash on hand.

As at December 31, 2014, the Company had US$8.4 million in accounts receivable outstanding compared to US$7.1 million as at December 31, 2013. Approximately US$5.2 million is due from the government of Egypt controlled corporations (EGPC and GPC) for oil sales; US$2.2 million is expected to be received in the normal course of operations; the remaining US$3.0 million is with-held as a rolling guarantee towards the work program for the South Disouq concession.

As at December 31, 2014 the Company has borrowed US$10.1 million of the Facility which is fully utilized. The utilization consists of: i) US$7.1 million cash drawdown under Tranche A and ii) US$3.0 million cash drawdown under Tranche B. Approximately US$6.0 million of Tranche A was utilized to put in place bank guarantees related to the South Disouq work program and the remainder for general and administrative expenses for the Company's corporate office.

The Company deposited US$6.0 million, drawn under the Facility, into a HSBC bank account in Egypt in order to provide for US$6.0 million guarantees in relation to the work program for the South Disouq concession. This amount is presented as restricted cash. As a result, the Company satisfied its obligations to post US$9.0 million in guarantees towards the work program for the South Disouq concession, consisting of US$3.0 million of Shukheir Marine accounts receivable withholdings, and US$6.0 million in restricted cash. The US$6.0 million of restricted cash will be released upon completion of the farm out of South Disouq and used to repay the bank debt (please refer to Subsequent Events for further details on the farmout).

Subsequent to the year end the Company repaid a further US$1.2 million under the Facility and the utilization now consists of: i) US$7.1 million cash drawdown under Tranche A and ii) US$1.8 million cash drawdown under Tranche B. As the Facility has entered the amortization phase and amounts available have started to decline, in accordance with the semi-annual borrowing base redetermination calculations, the Company will be required to set aside cash in order to comply with the repayment schedule of the Facility.

Subsequent to the year end the Company collected US$1.4 million from EGPC for accounts receivable and US$1.9 million from the South Disouq farminee for its share of past costs.

The following table outlines the Company's working capital. Working capital is defined as current assets less current liabilities, and includes drilling inventory materials and restricted cash which may not be immediately monetized.

$000's	DECEMBER 31, 2014	December 31, 2013
Current Assets		
Cash and cash equivalents	**2,966**	4,287
Restricted cash	**6,000**	–
Trade and other receivables	**8,678**	7,130
Inventory	**1,493**	3,279
Deferred transaction costs	**373**	371
Current Assets	**19,510**	15,067
Current Liabilities		
Bank indebtedness	**10,072**	–
Trade and other payables	**4,383**	5,188
Current Liabilities	**14,455**	5,188
Working Capital	**5,055**	9,879

The movement in working capital since December 31, 2013 reflects the US$9.0 million of guarantees put in place for South Disouq and the payment of the US$4.0 million signature bonus. The award of the South Disouq concession has resulted in a decrease in cash of US$4.0 million due to the payment of the signature bonus, restricted cash of US$6.0 million to support bank guarantees, an increase in trade receivables of US$3.0 million due to Shukheir Marine pledged receivables as part of the guarantees to secure the work program and an increase in bank indebtedness to fund the further US$6.0 million of guarantees.

Upon ratification of the farm out agreement by the Egyptian authorities and confirmation that the farminee guarantees are in place, the restricted cash of US$6.0 million will be transferred back to the Company and used to cancel guarantees issued by HSBC and borrowed under the Facility (please refer to Subsequent Events).

The following table outlines the Company's sources and uses of cash for the three and twelve months ended December 31, 2014 and 2013:

		THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
$000's	PRIOR QUARTER	**2014**	2013	**2014**	2013
Sources:					
Funds from operations	(77)	**(1,261)**	177	**1,557**	5,411
Cash from disposal of materials inventory	166	**55**	411	**755**	411
Cash from disposal of office assets	–	**–**	11	**–**	11
Cash from disposal of Kom Ombo Concession	192	**–**	6,566	**453**	6,566
Proceeds from bank facility	632	**1,800**	1,001	**11,932**	6,360
Effect of foreign exchange on cash and cash equivalents	(19)	**(28)**	(608)	**(371)**	(317)
	894	**566**	7,558	**14,326**	18,442
Uses:					
Property, plant and equipment expenditures	(1,202)	**(323)**	(873)	**(2,624)**	(6,385)
Exploration and evaluation expenditures	(4)	**(88)**	(752)	**(4,111)**	(752)
Restricted cash/bank guarantees	–	**–**	–	**(6,000)**	–
Repayment of bank facility	–	**(1,359)**	(4,204)	**(1,859)**	(9,360)
Changes in non-cash working capital	704	**2,381**	1,258	**(1,053)**	(3,316)
	(502)	**611**	(4,571)	**(15,647)**	(19,813)
Increase/(decrease) in cash	392	**1,177**	2,987	**(1,321)**	(1,371)
Cash and cash equivalents at beginning of period	1,397	**1,789**	1,300	**4,287**	5,658
Cash and cash equivalents at end of period	1,789	**2,966**	4,287	**2,966**	4,287

The Company's funds from operations have decreased by US$1.4 million from the prior quarter due to a US$1.9 million drop in revenues as a result of the declining oil price offset by a decrease in direct operating expenses of US$0.7 million. The company also had a net drawdown from the bank facility during the quarter of US$0.4 million.

The Company's funds from operations for the year ended December 31, 2014 compared to the prior year has decreased by US$3.9 million due to a US$9.5 million drop in net revenues as a result of a the declining oil price and a reduction in sales volumes offset by a decrease of US$0.6 million in direct operating costs, US$0.5 million in exploration and evaluation expense and US$1.4 million in general and administrative costs. The 2013 funds from operations amount also saw a book adjustment of US$1.6 million related to the sale of Kom Ombo for the interim period, March to October 2013.

During 2014 the Company received US$0.8 million cash from the disposal of materials inventory and the final cash settlement of US$0.5 million in relation to the disposal of the Kom Ombo concession.

The Company utilized US$11.9 million from the bank facility which was used in part for US$6.0 million of bank guarantees and US$4.0 million signature bonus related to the South Disouq work program, US$2.6 million on development and production capital expenditure and general and corporate purposes. The Company repaid US$1.9 million under the bank facility and at the balance sheet date bank indebtedness was US$10.1 million.

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, 2014 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$). Substantially all of the Company's operations are in foreign jurisdictions and as a result, the Company is exposed to foreign currency exchange rate risk on some of its activities primarily on exchange fluctuations between the Egyptian Pound (EGP) and the US$ and Sterling (GBP) and the US$. The majority of capital expenditures are incurred in US$ and oil revenues are received in EGP and US$. The Company has been so far able to utilize the EGP locally to fund the local office general and administrative expenses as well as cash calls on both the capital expenditures and operating expenditures therefore reducing the Company's exposure to foreign exchange risk during the period. The Company will continue to work with local partners to maintain this foreign exchange risk management initiative. However local management in the Company's Cairo office have held constructive discussions with EGPC and GPC to seek future oil revenues for 2015 be settled in US$.

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

As at December 31, 2014	Total per FS [1]	US$	EGP	EUR	CAD	GBP
			US$ Equivalent			
Cash and cash equivalents	2,966	1,197	1,603	45	20	101
Restricted cash	6,000	6,000	–	–	–	–
Trade and other receivables	8,678	8,432	–	10	35	201
Bank indebtedness	(10,072)	(10,072)	–	–	–	–
Trade and other payables	(4,383)	(2,218)	(1,859)	(19)	(69)	(218)
Balance sheet exposure	**3,189**	**3,339**	**(256)**	**36**	**(14)**	**84**

[1] *denotes Financial Statements*

The average exchange rates during the year ended December 31, 2014 were 1 US$ equals:

AVERAGE: 1 JANUARY 2014 TO 31 DECEMBER 2014				
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Period average	1.1041	0.6072	0.7536	7.0545

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

The exchange rates at December 31, 2014 were 1 US$ equals:

PERIOD END: 31 DECEMBER 2014				
	USD/CAD	*USD/GBP*	*USD/EUR*	*USD/EGP*
Dec 31, 2014	1.1627	0.6437	0.8226	7.1296

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

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 in London.

As at December 31, 2014 and 2013, the Company's trade and other payables is as follows:

	DECEMBER 31, 2014	December 31, 2013
Current		
Trade payables	**2,068**	2,787
Accruals	**2,018**	2,175
Other payables	**297**	226
	4,383	5,188

The trade payables represent outstanding invoices due for payment in regard to the Shukheir Marine concession and are denominated in EGP.

Accruals represent i) PetroAmir outstanding opex and capex invoice accruals as notified by the Operator of the NW Gemsa concession of US$1.0 million, ii) transfer costs of US$0.6 million due to EGAS, on assignment of the South Disouq concession by Sea Dragon Energy Inc. to Sea Dragon Energy (Nile) B.V. (55%) and the South Disouq farminee (45%), iii) 2014 audit fee accruals of US$0.1 million, iv) 2014 reserves reporting accruals of US$0.1 million, and v) gas processing fees for the NW Gemsa concession of US$0.1 million.

In relation to point ii) above the farminee of the South Disouq concession was issued with a joint interest billing for their share of the transfer costs (US$0.2 million). Payment was received from the farminee during December 2014 and was recorded within the partner current account. See Note 7 Trade and other receivables.

Other payables represent deferred salary taxes in Egypt and payroll taxes in the U.K. All trade and other payables are considered current and payable within 12 months.

The decrease in accruals of US$0.2 million when compared to December 31, 2013 relates to the reversal of the NW Gemsa drilling accrual for Al Amir SE19 which was completed and placed on production during Qtr. 1 2014 (US$0.2 million), a decrease in the PetroAmir outstanding invoice accruals (US$0.3 million) and reversal of the Calgary office restructuring costs (US$0.3 million) offset by the assignment bonuses due to EGAS (US$0.6 million).

In order to mitigate foreign currency risk, trade payables in relation to Shukheir Marine are settled in EGP utilizing funds received from the settlement of trade receivables. Regarding NW Gemsa, the operator sends all information to Sea Dragon Energy in US$. However cash calls are settled in EGP utilizing funds from the 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 operations 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	
(000's)	**DECEMBER 31, 2014**	December 31, 2013
Cash and cash equivalents	**2,966**	4,287
Restricted cash	**6,000**	-
Trade and other receivables	**8,678**	7,130
Total	**17,644**	11,417

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 GPC, 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, 2014	December 31, 2013
Government of Egypt controlled corporations	**5,536**	4,629
Joint venture partners	**2,592**	579
Other	**550**	1,922
Total	**8,678**	7,130

Receivables relating to oil sales are due from EGPC and GPC (General Petroleum Company), two Government of Egypt controlled corporations and are normally collected in two to four months following production.

Receivables of US$5.5 million relating to oil sales are due from EGPC and GPC (December 31, 2013: US$4.6 million). The Company expects to collect US$2.5 million of outstanding receivables, US$2.2 million for NW Gemsa and US$0.3 million for Shukeir Marine, in the normal course of operations, with US$3.0 million of Shukheir Marine receivables withheld as a rolling guarantee for the work program of the South Disouq concession.

The Shukheir Marine trade receivables of US$3.0 million withheld under the production guarantee will not be collectible until such time as the work program is satisfied.

The other receivables of US$3.1 million consist of joint operations partner current accounts of US$2.6 million, US$0.2 million accrued gas and liquids revenue, net of excess cost, yet to be invoiced, US$0.2 million related to prepayments and US$0.1 million for GST/VAT.

The joint operations partner current accounts of US$2.6 million comprise:

i) US$0.3 million for the Shukheir Marine concession;

ii) US$0.3 million for the NW Gemsa concession;

ii) US$2.0 million for the South Disouq concession. The partner current account pertains to the farminee of the concession and was for joint operation billings to recover past costs in line with the Farm Out Agreement. The farminee was billed for its share of the signature bonus (US$1.9 million) and, transfer costs (US$0.2 million). A further US$0.1 million remains to be billed for G&G costs. The Company received US$0.2 million cash on December 19, 2014. The remaining US$1.9 million was received on January 29, 2015. Please see Note 26 'Subsequent Events' for further details.

As at December 31, 2014 and 2013, the Company's trade and other receivables is aged as follows:

	DECEMBER 31, 2014	December 31, 2013
Current (less than 90 days)	**6,422**	6,848
Past due (more than 90 days)	**2,256**	282
Total	**8,678**	7,130

The balances which are past due are not considered impaired.

Trade and other receivables past due have increased by US$2.0 million when compared to the year ended December 31, 2013. This increase is largely as a result of the Shukheir Marine rolling pledged receivables and represents the May to August 2014 oil sales invoices totaling US$ 2.1 million.

Subsequent to December 31, 2014 the Company collected US$1.4 million from government of Egypt controlled corporations, thereby reducing the current (less than 90 days) balance.

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, 2014	December 31, 2013
Equity	**25,828**	34,341
Working capital [1]	**(5,055)**	(9,879)
Total	**20,773**	24,462

(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 decreased in the year to December 31, 2014 when compared to December 31, 2013 by US$3.7 million due to a decrease in cash and cash equivalents, inventory and trade and other payables and an increase in trade and other receivables and bank debt, largely as a result of the award of the South Disouq concession. This required the payment of a US$4.0 million signature bonus and US$9.0 million of guarantees; offset by US$6.0 million of restricted cash, to support the work program.

Note as discussed in prior sections of the MD&A the working capital will increase upon ratification of the South Disouq farm out agreement and receipt of US$1.9 million in past costs.

SUMMARY OF QUARTERLY RESULTS

FISCAL YEAR	2014				2013			
$000's	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Cash, beginning of period	**1,789**	**1,397**	**875**	**4,287**	1,300	2,232	5,598	5,658
Cash, end of period	**2,966**	**1,789**	**1,397**	**875**	4,287	1,300	2,232	5,598
Working capital	**5,055**	**6,317**	**6,148**	**5,747**	9,879	12,209	6,393	6,806
Funds from operations	**(1,261)**	**(77)**	**1,598**	**1,297**	178	2,322	949	1,962
per share	**(0.00)**	**(0.00)**	**0.00**	**0.00**	0.00	0.01	0.00	0.01
Net income/(loss)	**(6,471)**	**(1,207)**	**(249)**	**(1,033)**	(1,071)	845	(662)	(6,820)
per share	**(0.02)**	**(0.00)**	**(0.00)**	**(0.00)**	0.00	(0.00)	(0.00)	(0.02)
Capital expenditures	**(1,204)**	**(349)**	**1,015**	**4,853**	1,624	2,059	1,635	1,819
Total assets	**40,283**	**45,587**	**47,119**	**40,026**	39,529	43,678	43,184	44,711
Shareholders' equity	**25,828**	**32,208**	**33,313**	**33,363**	34,341	35,251	34,220	34,605
Common shares outstanding *(000's)*	**376,459**	**376,459**	**376,459**	**376,459**	376,459	376,459	376,459	376,459
Operational								
Oil sales *(bbl/d)*	**1,239**	**1,248**	**1,426**	**1,489**	1,570	1,727	1,716	1,495
Gas sales *(bbl/d)*	**–**	**855**	**927**	**1,058**	1,110	1,117	1,058	–
NGL sales *(bbl/d)*	**–**	**21**	**21**	**22**	24	25	24	–
Total *boe/d*	**1,239**	**1,412**	**1,602**	**1,686**	1,779	1,938	1,916	1,495
Brent oil price *($/bbl)*	**76.37**	**101.87**	**109.70**	**108.14**	108.70	110.60	101.47	112.07
Realized oil price *($/bbl)*	**71.18**	**95.56**	**103.90**	**102.31**	104.26	105.10	97.64	106.28
Realized gas price *(US$/mcf)*	**0.00**	**1.00**	**1.00**	**1.00**	1.00	1.00	1.00	–
Realized NGL price *(US$/bbl)*	**0.00**	**68.45**	**73.58**	**72.43**	75.18	77.35	65.00	–
Net realized price *($/boe)*	**71.18**	**86.12**	**94.05**	**91.86**	93.65	95.23	88.81	–
Royalties *($/bbl)*	**41.75**	**48.09**	**53.69**	**53.60**	51.86	49.52	45.88	54.76
Operating costs *($/bbl)*	**17.30**	**20.31**	**10.57**	**12.23**	14.31	12.30	13.76	12.11
Netback *($/bbl)*	**12.13**	**17.72**	**29.79**	**26.02**	27.49	33.26	29.17	39.42

SUBSEQUENT EVENTS

The company completed the farm out of the South Disouq concession. Under the Deed of Assignment, issued on January 12, 2015, the Company farmed out a 45% interest in the concession. Under the terms of the Farm Out Agreement the farminee would pay US$1.9 million in past costs and replace US$6.0 million in work program guarantees originally posted by the Company.

On January 29, 2015 the Company received the US$1.9 million of past costs related to the South Disouq farm out from the farminee.

On January 29, 2015 the Company repaid US$1.2 million of bank debt under Tranche B of the Facility.

An agreement was signed by the Company and EGPC on February 26, 2015 confirming the relinquishment of the Company's interest in the Shukheir Marine concession; effective January 31, 2015.

Effective April 1, 2015 the Company will cancel 4,000,000 options, 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, 2014.

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 2014.

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, 2014.

AMENDMENTS TO OTHER STANDARDS

The following amended standards have been adopted by the Company for the financial year beginning on or after January 1, 2014. There has been no material change to the Company's financial statements as a result of the application of these amended standards.

Amendment to IAS 32 – Financial Instruments: Presentation on offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

Amendments to IAS 36 – Impairment of Assets: on the recoverable amount disclosures for non-financial assets

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39 – Financial Instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting.

The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company's financial statements as a result.

IFRIC 21 – Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Company.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, 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 Company, 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. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the twelve months of 2014. 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, 2014.

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 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 largely is unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company has no key-man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Government Regulations

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

Environmental Factors

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

Insurance

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

Regulatory Matters

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

Operating Hazards and Risks

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

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

Repatriation of earnings

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

Disruptions in Production

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

Foreign Investments

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

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds, 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 December 31, 2014. 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, 2014.