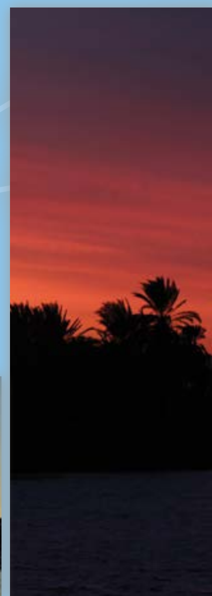
Management's Discussion & Analysis



Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated November 25, 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 nine months ended September 30, 2014. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three and nine months end September 30, 2014, and the audited consolidated financial statements for the year ended December 31, 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.

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USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, particularly the recoverability of accounts receivable and acquisition costs of property and equipment. Estimates and assumptions also affect the recording of liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Due to various factors affecting future costs and operations, actual results could differ from management's best estimates.

Non-IFRS Measures

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

Funds from operations

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

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$000's	**2014**	2013	**2014**	2013
Cash from/(used in) operating activities	**627**	813	**(607)**	660
Less: changes in non-cash working capital	**704**	(1,509)	**(3,423)**	(4,573)
Funds (used in)/generated by operations	**(77)**	2,322	**2,816**	5,233

For the three and nine months ended September 30, 2014 the Company generated funds from operations of US$(0.1) million and US$2.8 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.

From July 2013, a military appointed interim President and cabinet were responsible for governing Egypt, based on a defined roadmap to elections that eventually took place in May 2014. The interim government voted an US$8.5 billion stimulus package with the backing of GCC State funding in October 2013 and January 2014 and took significant steps towards fiscal reforms. In January 2014, a new and modern constitution was adopted after a nationwide referendum. These steps bolstered investor confidence and the EGX stock exchange has returned to 2010 levels in a dramatic rally since October 2013. Both Fitch and Standard & Poors rating agencies then upgraded Egypt's sovereign credit risk to B- with a stable outlook.

Presidential elections were held on May 26-27, 2014 and the country transitioned to a new democratically elected government, with Parliamentary elections planned for the first quarter of 2015. A new government was formed in May 2014 upon elections and will continue efforts to map out structural reforms needed to improve the budget and stimulate growth and employment. The effort has a particular focus on helping exporting industries, providing investment incentive for domestic and foreign investors, gradually removing energy subsidies, and securing IMF support.

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 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 concessions in Egypt:

- The NW Gemsa Concession ("NW Gemsa"),
- The Shukheir Marine Concession ("Shukheir Marine"),
- The South Ramadan concession ("South Ramadan"),
- The South Disouq Concession ("South Disouq").

Outlook

The Company's capital expenditure program for 2014 is approximately US$8.8 million. The Company spent US$5.5million during the three quarters of 2014 drilling three wells and a well workover program in NW Gemsa, workovers on Gamma and Shukheir Bay 5 wells in Shukheir Marine and paying the signature bonus for South Disouq. There remains US$3.3 million capital expenditure budgeted for the last quarter of the year; of which US$2.0 million relates to Shukheir Marine for a bonus payment contingent on the approval of a 10 year extension.

Upon ratification of the South Disouq farm out agreement by the Egyptian authorities, the Company expects to receive US$1.9 million in past costs related to the signature bonus paid by the Company of US$4.0 million. Payment of past costs will reduce the Company's capitalized exploration and evaluation expenditure (E&E) incurred in the first half of 2014. Under the "Capital expenditures" section of the MD&A E&E expenditure for the nine months ended September 30, 2014 is shown as US$4.0 million and upon receipt of US$1.9 million past costs will be reduced to US$2.1 million.

The South Disouq farm out also improves working capital and net debt positions, and reduces the capital commitments as per Note 19 of the Financial Statements and further discussed in the MD&A. Current commitments for the concession are US$9.0 million. Upon ratification of the farm out this will reduce to US$3.3 million.

The joint venture partner ("JVP") will also provide surety for US$6.0 million of guarantees to support the South Disouq work program. Upon ratification of the farm out agreement and confirmation from the JVP that the guarantees are in place the restricted cash of US$6.0 million, held by HSBC in Egypt, will be transferred to the Company and used to repay bank borrowings under the facility.

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.

		THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$000's except per unit amounts	PRIOR QUARTER[1]	**2014**	2013	**2014**	2013
OPERATIONAL					
Oil revenue	13,331	**10,974**	16,698	**38,012**	46,243
Royalties	(7,643)	**(6,157)**	(8,712)	**(21,836)**	(23,973)
Net Oil revenue	5,688	**4,817**	7,986	**16,176**	22,270
Gas revenue	83	**79**	103	**257**	199
Royalties	(36)	**(34)**	(43)	**(110)**	(83)
Net Gas revenue	47	**45**	60	**147**	116
NGL revenue	142	**133**	176	**415**	329
Royalties	(59)	**(55)**	(73)	**(173)**	(137)
Net NGL revenue	83	**78**	103	**242**	192
Total Net Revenue	5,818	**4,940**	8,149	**16,565**	22,578
Operating Costs	(1,523)	**(2,639)**	(2,192)	**(6,019)**	(6,220)
Netback (pre tax)	4,295	**2,301**	5,957	**10,546**	16,358
Oil Sales (bbl/d)	1,426	**1,248**	1,727	**1,381**	1,647
Gas Sales (mcf/d)	927	**855**	1,117	**942**	729
NGL Sales (bbl/d)	21	**21**	25	**21**	16
Total boe/d	1,602	**1,412**	1,938	**1,560**	1,784
Brent Oil Price (US$/bbl)	$109.70	**$101.87**	$110.60	**$106.55**	$108.04
Realized oil price (US$/bbl)	$103.90	**$95.56**	$105.10	**$100.79**	$102.86
Realized gas price (US$/mcf)	$1.00	**$1.00**	$1.00	**$1.00**	$1.00
Realized NGL price (US$/bbl)	$73.58	**$68.45**	$77.35	**$71.51**	$65.00
Net Realized price (US$/boe)	$94.05	**$86.12**	$95.07	**$90.85**	$95.93
Total Royalties (US$/boe)	$53.69	**$48.09**	$49.52	**$51.95**	$49.67
Operating costs (US$/boe)	$10.57	**$20.31**	$12.30	**$14.13**	$12.77
Netback - (US$/boe)	$29.79	**$17.72**	$33.26	**$24.77**	$33.48
Capital expenditures	1,015	**(349)**	2,059	**5,519**	5,513

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

Sales Volumes

Total sales volumes for the three and nine months ended September 30, 2014 (the "Quarter") averaged 1,412 boe/d and 1,560 boe/d compared to 1,938 boe/d and 1,784 boe/d for the comparative periods in the prior year.

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

		THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	PRIOR QUARTER	2014	2013	2014	2013
N W Gemsa	95,457	**89,411**	101,922	**283,660**	278,599
Shukheir Marine	32,860	**25,429**	39,470	**93,467**	115,546
Kom Ombo	–	**–**	17,453	**–**	55,355
Total Crude Oil Sales - bbls	128,317	**114,840**	158,845	**377,127**	449,500

Pricing

The Company is exposed to the volatility in commodity price markets for all of its sales volumes and changes in foreign exchange rate between the EGP and US$ for oil revenues and capital and operational expenditure as well as GBP and the US$ and CAD$ and US$ 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 nine months ended September 30, 2014 the Company received an average price of $95.56 per barrel and $100.79 per barrel for oil compared to the average Brent Oil price ("Brent") of $101.87 per barrel and $106.55 per barrel; a discount of US$6.31 and US$5.76 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 the refineries.

During the three and nine months ended September 30, 2014 the Brent price ranged from a low of US$94.53 per barrel on September 24 to a high of US$115.19 per barrel on June 19. 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 as countries such as China try to manage debt 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 commenced sales of gas and Natural Gas Liquids ("NGL") in February 2013 from the NW Gemsa concession. The operator is in the process of finalizing the invoicing procedure with EGPC and expects to resolve this matter and issue a billing in Qtr. 4, 2014. Revenue has been recorded for gas and NGL based on framework prices in the concession agreement.

CRUDE OIL SALES		THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$000's except per unit amounts	PRIOR QUARTER	2014	2013	2014	2013
Crude oil sales	13,331	**10,974**	16,698	**38,012**	46,243
Per bbl	103.90	**95.56**	105.10	**100.79**	102.86

Crude oil sales for the three and nine months ended September 30, 2014 were US$11.0 million and US$38.0 million compared to US$16.7 million and US$46.2 million for the three and nine months ended September 30, 2013. Crude oil sales have decreased in the quarter and year to date 2014 due to the disposal of the Kom Ombo concession at November 1, 2013, a decrease in the price of crude oil and production issues in North West Gemsa and Shukheir Marine.

NW Gemsa has seen a decrease in production during Qtr. 3 as a result of planned well workovers on Al Amir SE-2, Al Amir SE-6 which was shut-in for 14 days during September and Al Amir SE-13 being shut-in since July 4.

Shukheir Marine has seen a decrease in sales volume compared to 2013 due to (i) the GA-1 well, in the Gamma field, being shut-in following a paraffin block in the tubing string and (ii) the Shukheir Bay 5 well being shut in due to a tubing leak.

Following work overs production resumed on November 7 for the GA-1 well and October 1 for Shukheir Bay 5.

Since February 2013 to date the Company has accrued net condensate sales of US$0.3 million which have not yet been billed by the operator or recovered from EGPC. The operator expects to resolve this matter and issue a billing in Qtr. 4, 2014.

The crude oil sales per concession were:

$000's	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2014	2013	**2014**	2013
N W Gemsa	10,021	**8,590**	10,827	**28,833**	28,973
Shukheir Marine	3,310	**2,384**	4,008	**9,179**	11,468
Kom Ombo	–	**–**	1,863	**–**	5,802
Total Crude Oil Sales	13,332	**10,974**	16,698	**38,012**	46,243

Variance from prior quarter

For the three months ended September 30, 2014 the decrease in revenue is attributable to an 8.0 per cent decrease in realized sales price and a 10.5 percent decrease in sales volumes from the prior quarter ending June 30, 2014. The decrease in sales volume is due to planned well workovers in the Al Amir field of NW Gemsa and the shut-in of the GA-1 well in the Gamma field and a tubing leak with Shukheir Bay 5 of the Shukheir Marine concession.

$000's	
Three months ended June 30, 2014	13,331
Price variance	(957)
Production variance	(1,399)
Three months ended September 30, 2014	**10,974**

Variance from prior year

For the nine months ended September 30, 2014 the decrease in revenue is due to a 2.0 per cent decrease in realized sales price and a 16.1 per cent decrease in sales volumes from the prior year ending September 30, 2013. The decrease in volume is due to the disposal of the Kom Ombo concession, the shut-in of the GA-1 well, in the Gamma field and a tubing leak with Shukheir Bay 5 of the Shukheir Marine concession and the planned well workovers in the Al Amir field of NW Gemsa.

$000's	
Nine months ended September 30, 2013	46,243
Price variance	(780)
Production variance	(7,451)
Nine months ended September 30, 2014	**38,012**

Gas Sales

The net gas sales for the three and nine months ended September 30, 2014 were US$0.05 million and US$0.1 million respectively; see operational and financial highlights table above. Since February 2013 to date the Company has accrued net gas sales of US$0.3 million which have not yet been billed by the operator or recovered from EGPC. The operator expects to resolve this matter and issue a billing in Qtr. 4, 2014.

Natural Gas Liquids ("NGL") Sales

The net NGL sales for the three and nine months ended September 30, 2014 were US$0.1 and US$ 0.2 million respectively; see operational and financial highlights table above. Since February 2013 to date the Company has accrued net NGL sales of US$0.4 million which have not yet been billed by the operator or recovered from EGPC. The operator expects to resolve this matter and issue a billing in Qtr. 4, 2014.

Royalties

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2014	2013	**2014**	2013
Royalties	7,738	**6,246**	8,828	**22,119**	24,193
Per bbl	53.69	**48.09**	49.52	**51.95**	49.67
Royalties as a percent of revenue (%)	57	**56**	53	**57**	52

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

CONCESSION	SEA DRAGON'S WI [1]	COST OIL TO CONTRACTOR [2]	CAPITAL COST RECOVERED [2]	OPERATING COST RECOVERED [2]	EXCESS OIL TO CONTRACTOR [3]	PROFIT OIL TO CONTRACTOR [4]
NW Gemsa *(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, the 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 SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2014	2013	**2014**	2013
Direct operating costs	1,523	**2,639**	2,192	**6,019**	6,220
Per boe	10.57	**20.31**	12.30	**14.13**	12.77

Direct operating costs for the three and nine months ended September 30, 2014 were US$2.6 million (US$20.31 per boe) and US$6.0 million (US$14.13 per boe), compared to US$2.2 million (US$12.30 per boe) and US$6.2 million (US$12.77 per boe) in the comparative periods for the prior year. The operating costs for the three months ended September 30 increased compared to the prior quarter of 2014 due to annual bonus payments for Shukheir Marine of US$0.6 million and production expense accruals of US$0.6 million in relation to outstanding accounts payables for NW Gemsa. The Shukheir Marine annual bonus payments are government mandated as stipulated by EGPC; are part of the terms and conditions of employment and represent, on average, 23 months of base salary.

Direct operating expenses have decreased when compared to the comparative periods of 2013 due to the disposal of the Kom Ombo concession, partially offset by higher indirect costs of US$0.7million in Shukheir Marine and higher equipment rentals and production expense accruals of US$0.6 million in NW Gemsa.

Operating costs per boe from Qtr. 2 2013 onwards are calculated using the sales volumes from oil, gas and liquids.

The direct operating costs per concession were:

$000's	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2014	2013	**2014**	2013
N W Gemsa	406	**672**	486	**1,559**	1,150
Shukheir Marine	1,117	**1,967**	1,271	**4,454**	3,718
Kom Ombo	–	**–**	435	**–**	1,352
Other	–	**–**	–	**6**	–
Total Direct Operating Costs by Concession	1,523	**2,639**	2,192	**6,019**	6,220

Current taxes

$000's	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2014	2013	**2014**	2013
Current taxes	1,361	**1,138**	1,770	**3,893**	4,887

Pursuant to the terms of the Company's concession agreements, the corporate tax liability of the joint venture partners is paid, on its behalf, 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 included in net oil revenues and deducted as an income tax expense.

The current taxes per concession were:

$000's	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
		2014	2013	**2014**	2013
N W Gemsa	1,124	**967**	1,216	**3,236**	3,235
Shukheir Marine	237	**171**	287	**657**	821
Kom Ombo	–	**–**	267	**–**	831
Total Current Taxes by Concession	1,361	**1,138**	1,770	**3,893**	4,887

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 addditional loss on disposal for Kom Ombo of US$0.4 million during 2014.

Capital expenditures

$000's	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30 2014	THREE MONTHS ENDED SEPTEMBER 30 2013	NINE MONTHS ENDED SEPTEMBER 30 2014	NINE MONTHS ENDED SEPTEMBER 30 2013
Property, plant and equipment expenditures ("PP&E")	(986)	**285**	(2,059)	**(1,554)**	(5,514)
Exploration and evaluation expenditures ("E&E")	(19)	**54**	–	**(3,965)**	–
	(1,005)	**339**	(2,059)	**(5,519)**	(5,514)

During the three and nine months ended September 30, 2014, the Company incurred US$(0.3) million and US$5.5 million, respectively of capital expenditure.

The change in capital expenditure of US$(0.3) million during Qtr. 3 2014 for PP&E relates to the NW Gemsa concession and is negative as a result of reversing accruals. The joint operating statement (JOS) received from the operator enabled Sea Dragon to review the capital expenditure and accruals for the concession. This review resulted in a release of drilling and accounts payable accruals of US$1.5 million and additions as per the JOS of US$0.8 million. There was also capital expenditure incurred by the Shukheir Marine concession as a result of the apportionment of indirect costs and remedial work on Shukheir Bay 5 totalling US$0.4 million.

The PP&E expenditure for the nine months ended September 30, 2014 is US$1.5 million, consists of US$1.1 million for NW Gemsa and US$0.4 million for Shukheir Marine. The NW Gemsa capital expenditure was incurred on three wells AASE-19, AASE-21 and AASE-22 and a ten well workover program.

Capital expenditure of US$4.0 million under E&E relates to the signature bonus for the South Disouq concession paid in Q1 2014.

Upon completion of the farm out agreement for the South Disouq concession the Company expects to receive US$1.9 million in past costs which has the effect of reducing the capitalized E&E expenditure to US$2.1 million.

The following table shows the cumulative capitalized costs for property and equipment on all of the Company's oil and gas properties and corporate and operations offices:

$000's	SEPTEMBER 30, 2014	DECEMBER 31, 2013
Oil and gas properties, at cost	**34,215**	32,688
Accumulated depletion and impairment	**(13,459)**	(9,918)
	20,756	22,770
Furniture and fixtures, at cost	**517**	490
Accumulated depreciation	**(319)**	(198)
	198	292
	20,954	23,062

At September 30, 2014, US$0.8 million (September 30, 2013 - US$4.6 million) of future development costs are included in the calculation of cost in determining the depletion rate.

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

$000's	SEPTEMBER 30, 2014	DECEMBER 31, 2013
Exploration and evaluation assets, beginning of period	**752**	752
Additions	**3,965**	–
Exploration well write off	**(152)**	–
Exploration and evaluation assets, end of period	**4,565**	752

At September 30, 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 SEPTEMBER 30 2014	THREE MONTHS ENDED SEPTEMBER 30 2013	NINE MONTHS ENDED SEPTEMBER 30 2014	NINE MONTHS ENDED SEPTEMBER 30 2013
Wages and employee costs	541	**537**	616	**1,616**	1,906
Consultants - inc. PR/IR	193	**74**	154	**381**	321
Legal fees	107	**111**	59	**271**	200
Audit, tax and accounting services	32	**66**	92	**162**	231
Public company fees	34	**90**	72	**159**	176
Travel	77	**128**	145	**244**	372
Office expenses	130	**133**	195	**340**	539
IT expenses	55	**51**	60	**174**	112
Bank charges	6	**11**	6	**23**	18
Restructuring costs	–	**–**	340	**–**	705
Total	1,175	**1,201**	1,739	**3,370**	4,580

General and administrative ("G&A") costs for the three and nine months ended September 30, 2014 were US$1.2 million and US$3.4 million respectively compared to US$1.7 million and US$4.6 million for the comparative periods in the prior year. This represents a decrease of US$0.5 million or 31% and US$1.2 million or 26% compared to the prior year. The decrease is due to lower wages and employee costs, consultants' fees, audit and tax, travel, office rent and restructuring costs, partially offset by higher legal and public company fees.

Stock based compensation

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. The non-cash compensation expense for the three and nine months ended September 30, 2014 was US$0.1 million and US$0.4 million.

On June 20, 2014 the Company granted Options to acquire 13,700,000 common shares at an exercise price of US$0.075 per Common Share.

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

$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED SEPTEMBER 30 2014	THREE MONTHS ENDED SEPTEMBER 30 2013	NINE MONTHS ENDED SEPTEMBER 30 2014	NINE MONTHS ENDED SEPTEMBER 30 2013
Depletion, depreciation and amortization	1,374	**868**	1,210	**3,662**	4,089
Per bbl	9.53	**6.68**	7.70	**8.33**	13.72

For the three and nine months ended September 30, 2014, depletion, depreciation and amortization ("DD&A") was US$0.9 million and US$3.7 million compared to US$1.2 million and US$4.1 million for the comparative periods in the prior year.

Net Earnings

For the three and nine months ended September 30, 2014, the Company recorded a net loss of US$1.2 million and US$2.5 million respectively, compared to a net income of US$0.8 million and a net loss of US$6.6 million for the comparative periods of the prior year. The variance between September 2014 and 2013 is due to lower revenues, depletion costs, general and administrative expenses and current income tax partially offset by higher direct operating expenses, material inventory losses and further losses on the disposal of the Kom Ombo concession.

Comparative periods in 2013 included the Kom Ombo concession which was disposed of on November 1, 2013 as well as an impairment of US$7.2 million.

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 obligation 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 account receivables 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.

Subsequent to the end of the quarter, the Company has increased its utilization of the Facility to a total of US$11.1 million, against US$11.3 million in amounts available under the facility. The Facility has entered the amortization phase and amounts available under the Facility will start declining as per the semi-annual borrowing base redetermination calculations. The Company has already set aside US$1.2 million to meet the first repayment due by the end of December 2014. The Company will continue to set cash aside from cash flow and proceeds of the farm out in order to comply with its amortization schedule in accordance with the terms of the Facility.

As of November 16, 2014, the Company has collected US$2.4 million from the government of Egypt controlled corporations.

The following table outlines the Company's working capital.

$000's	**SEPTEMBER 30, 2014**	DECEMBER 31, 2013
Current Assets		
Cash and cash equivalents	**1,789**	4,287
Restricted cash	**6,000**	–
Trade and other receivables	**9,140**	7,130
Inventory	**2,395**	3,279
Deferred transaction costs	**372**	371
Current Assets	**19,696**	15,067
Current Liabilities		
Bank indebtedness	**9,632**	–
Trade and other payables	**3,747**	5,188
Current Liabilities	**13,379**	5,188
Working Capital	**6,317**	9,879

Working capital is defined as current assets less current liabilities, and includes drilling inventory materials and restricted cash which may not be immediately monetized.

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 of 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. The working capital outlined in the above table would increase by US$1.9 million.

The following table outlines the Company's sources and uses of cash for the three and six months ended June 30, 2014 and 2013:

		THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
$000's	PRIOR QUARTER	2014	2013	2014	2013
Sources:					
Funds from operations	1,598	**(77)**	2,322	**2,816**	5,233
Cash from disposal of materials inventory	–	**166**	–	**700**	–
Cash from disposal of Kom Ombo Concession	–	**192**	–	**453**	–
Proceeds from bank facility	7,500	**632**	3,359	**10,132**	5,359
Effect of foreign exchange on cash and cash equivalents	(182)	**(19)**	11	**(342)**	293
	8,916	**894**	5,692	**13,759**	10,886
Uses:					
Property, plant and equipment expenditures	(599)	**(1,202)**	(2,059)	**(2,310)**	(5,514)
Exploration and evaluation expenditures	(19)	**(4)**	–	**(4,024)**	–
Restricted cash/bank guarantees	(6,000)	**–**	–	**(6,000)**	–
Repayment of bank facility	–	**–**	(3,056)	**(500)**	(5,156)
Changes in non-cash working capital	(1,776)	**704**	(1,509)	**(3,423)**	(4,574)
	(8,394)	**(502)**	(6,624)	**(16,257)**	(15,244)
Increase/(decrease) in cash	522	**392**	(932)	**(2,498)**	(4,358)
Cash and cash equivalents at beginning of period	875	**1,397**	2,232	**4,287**	5,658
Cash and cash equivalents at end of period	1,397	**1,789**	1,300	**1,789**	1,300

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 of 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 September 30, 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 local office general and administrative expenses as well as cash calls on both capital expenditure and operating expenditure therefore reducing the Company's exposure to foreign exchange risk during the period.

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

As at Sept 30, 2014	TOTAL PER FS [1]	US$	EGP	GBP	OTHER
	US$ EQUIVALENT				
Cash and cash equivalents	1,789	235	1,360	99	95
Restricted cash	6,000	6,000	–	–	–
Trade and other receivables	9,140	8,849	–	206	85
Bank indebtedness	(9,632)	(9,632)	–	–	–
Trade and other payables	(3,747)	(1,704)	(1,847)	(108)	(88)
Balance sheet exposure	3,550	3,748	(487)	197	92

[1] *denotes Financial Statements*

Exchange Rates

The average exchange rates during the three months ended September 30, 2014 were 1 US$ equals:

AVERAGE: July 1, 2014 to September 30, 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0879	0.5987	0.7540	7.1215

AVERAGE: July 1, 2013 to September 30, 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0390	0.6454	0.7550	6.9331

The average exchange rates during the nine months ended September 30, 2014 were 1 US$ equals:

AVERAGE: January 1, 2014 to September 30, 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average:	1.0935	0.5990	0.7377	7.0342

AVERAGE: January 1, 2013 to September 30, 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average:	1.0234	0.6469	0.7594	6.8275

The exchange rates at September 30, 2014 were 1 US$ equals:

PERIOD END: September 30, 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Sept 30, 2014	1.1156	0.6157	0.7882	7.1073

PERIOD END: September 30, 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Sept 30, 2013	1.0299	0.6195	0.7394	6.7738

Trade and other payables:

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

As at September 30, 2014 the Company's trade and other payables were:

	CARRYING AMOUNT	
$000's	SEPTEMBER 30, 2014	DECEMBER 31, 2013
Current		
Trade Payables	**1,879**	2,787
Accruals	**1,578**	2,175
Other payables	**290**	226
	3,747	5,188

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	
$000's	SEPTEMBER 30, 2014	DECEMBER 31, 2013
Cash and cash equivalents	**1,789**	4,287
Restricted cash	**6,000**	–
Trade and other receivables	**9,140**	7,130
Total	**16,929**	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 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 US$4.5 million outstanding receivables in the normal course of operations, with US$3.0 million pledged as a rolling production guarantee for the work program of the South Disouq concession.

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

	CARRYING AMOUNT	
$000's	SEPTEMBER 30, 2014	DECEMBER 31, 2013
Government of Egypt controlled corporations	**7,546**	4,629
Joint venture partners	**139**	579
Other	**1,455**	1,922
Total trade and other receivables	**9,140**	7,130

The Company's most significant customers, EGPC and GPC, government controlled corporations in Egypt account for US$7.5 million of the trade receivables at September 30, 2014 (December 31, 2013: US$4.6 million). Trade receivables include US$3.7 million for Shukheir Marine and US$3.8 million for NW Gemsa.

The trade receivables of US$3.0 million related to Shukheir Marine have been with-held as a rolling guarantee for the work program of the South Disouq concession. The remaining US$0.7 million is due for collection.

The Shukheir Marine with-held trade receivables of US$ 3.0 million will not be collectable until such time as the work program is satisfied. Refer to Note 6 of the Financial Statements for further details.

The other receivables of US$1.5 million consist of US$0.9 million accrued gas and liquid revenue yet to be invoiced, US$0.2 million related to prepayments and US$0.4 million of other.

As at September 30, 2014 and December 31, 2013, the Company's trade and other receivables is aged as follows:

	CARRYING AMOUNT	
$000's	**SEPTEMBER 30, 2014**	DECEMBER 31, 2013
Current (less than 90 days)	**7,179**	6,848
Past due (more than 90 days)	**1,961**	282
Total	**9,140**	7,130

The balances which are past due are not considered impaired.

Trade and other receivables past due have increased by US$1.7 million when compared to December 31, 2013. This increase is largely as a result of the Shukheir Marine rolling pledged receivables and represents the February to May 2014 oil sales invoices totaling US$2.0 million.

Subsequent to September 30, 2014 the Company collected US$2.4 million from government of Egypt controlled corporations, thereby reducing the current (less than 90 days) balance by US$1.5 million and past due by US$0.9 million.

Cash and cash equivalents:

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

The Company defines and computes its capital as follows:

	CARRYING AMOUNT	
$000's	**SEPTEMBER 30, 2014**	DECEMBER 31, 2013
Equity	**32,208**	34,341
Working capital [1]	**(6,317)**	(9,879)
Total capital	**25,891**	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 period to September 30, 2014, when compared to December 31, 2013 by US$3.6 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				2012
Financial *$000's*	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash, beginning of period	**1,397**	875	4,287	1,300	2,232	5,598	5,658	5,405
Cash, end of period	**1,789**	1,397	875	4,287	1,300	2,232	5,598	5,658
Working capital	**6,317**	6,148	5,747	9,879	12,209	6,393	6,806	6,645
Funds from operations	**(77)**	1,598	1,297	178	2,322	949	1,962	2,083
per share	**(0.00)**	0.00	0.00	0.00	0.01	0.00	0.01	0.00
Net Income/(loss)	**(1,207)**	(249)	(1,033)	(1,071)	845	(662)	(6,820)	(6,447)
per share	**(0.00)**	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.02)	(0.02)
Capital expenditures	**(349)**	1,015	4,853	1,624	2,059	1,635	1,819	1,358
Total assets	**45,587**	47,119	40,026	39,529	43,678	43,184	44,711	52,006
Shareholders' equity	**32,208**	33,313	33,363	34,341	35,251	34,220	34,605	41,250
Common shares outstanding **(000's)**	**376,459**	376,459	376,459	376,459	376,459	376,459	376,459	376,459
Operational								
Oil sales *(bbl/d)*	**1,248**	1,426	1,489	1,570	1,727	1,716	1,495	1,273
Gas sales *(mcf/d)*	**855**	927	1,058	1,110	1,117	1,058	–	–
NGL sales *(bbl/d)*	**21**	21	22	24	25	24	–	–
Total *boe/d*	**1,412**	1,602	1,686	1,779	1,938	1,916	1,495	1,273
Brent oil price *($/bbl)*	**101.87**	109.70	108.14	108.70	110.60	101.47	112.07	110.51
Realized oil price *($/bbl)*	**95.56**	103.90	102.31	104.26	105.10	97.64	106.28	105.52
Realized gas price *($/mcf)*	**1.00**	1.00	1.00	1.00	1.00	1.00	–	–
Realized NGL price *($/bbl)*	**68.45**	73.58	72.43	75.18	77.35	65.00	–	–
Net Realized price *($/boe)*	**86.12**	94.05	91.86	93.65	95.23	88.81	–	–
Royalties *($/boe)*	**48.09**	53.69	53.60	51.86	49.52	45.88	54.76	55.49
Operating costs *($/boe)*	**20.31**	10.57	12.23	14.31	12.30	13.76	12.11	4.94
Netback *($/boe)*	**17.72**	29.79	26.02	27.49	33.26	29.17	39.42	45.09

The cash balance increased by US$0.4 million during Q3 due to US$0.9 million sources of funds (funds from operations, cash from the disposal of materials inventory, the final settlement of Kom Ombo, utilization of the bank facility, and effects of foreign exchange) offset by US$0.4 million uses of funds (PP&E expenditure, E&E expenditure, and changes in non-cash working capital).

Working capital has increased from Q2 2014 by US$0.2 million due to net cash inflow of US$0.4 million, a decrease of US$0.6 million in trade and other receivables, a further draw down under the bank facility of US$0.6 million, and a reduction of US$1.1 million in trade and other payables.

Funds used in operations has increased by US$1.7 million compared to Qtr. 2 2014 due to a reduction in revenue of US$0.9 million, an increase in direct operating expenditure of US$1.1 million and a decrease in the tax expense of US$0.2 million.

Capital expenditures for Q3 2014 of US$(0.3) were negative as a result of PP&E reversing accruals in the NW Gemsa concession. The joint operating statement (JOS) received from the operator enabled Sea Dragon to review the capital expenditure and accruals for the concession. This review resulted in a release of drilling and accounts payable accruals of US$1.5 million and additions as per the JOS of US$0.8 million. There was also capital expenditure incurred by the Shukheir Marine concession as a result of the apportionment of indirect costs and remedial work on Shukheir Bay 5 totalling US$0.4 million.

Oil sales volumes for Q3 2014 have decreased as compared to prior quarters due to the disposal of the Kom Ombo concession, the shut-in of the GA-1 well in the Gamma field and production issues with Shukheir Bay 5 of Shukheir Marine and declining production in Al Amir SE-2, Al Amir SE-6 which was shut in for 14 days during September and Al Amir SE-14 being shut in since July 4.

Netbacks for Q3 2014 have decreased from Q2 2014 due to a falling crude oil price and higher operating costs. The net realized oil price has decreased by US$8.34 per barrel compared to Q2. Operating costs have increased by US$9.74 per barrel due to the payment of annual bonuses in the Shukheir Marine concession and higher accounts payable accruals as a result of recent information received from North Petroleum International Company, the operator of the North West Gemsa concession.

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. The policies applied are based on IFRS issued and outstanding as of September 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, 2013.

Future changes in accounting policies

There are no updates to future changes in accounting policies in the third quarter 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, 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 than in North America and which subject the Company to a number of risks not within the control of the Company. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, corruption and the risk of actions by terrorist or insurgent groups, changes in laws and policies governing operations of foreign-based companies, economic and legal sanctions and other uncertainties arising from foreign governments, any of which could adversely affect the economics of exploration or development projects.

Financial Resources

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

Exploration, Development and Production

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

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

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

Oil and Natural Gas Prices

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

Reserve Estimates

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

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

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

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

Reliance on Operators and Key Employees

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

Government Regulations

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

Environmental Factors

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

Insurance

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

Regulatory Matters

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

Operating Hazards and Risks

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

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

Repatriation of earnings

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

Disruptions in Production

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

Foreign Investments

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

As operations are primarily carried out in US dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes.

Competition

The Company operates in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including U.S.-based and foreign companies doing business in Egypt. The Company faces intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in seeking oil and gas exploration licences and production licences in Egypt; and acquiring desirable producing properties or new leases for future exploration.

The Company believes it has significant in-country relationships within the business community and government authorities needed to obtain cooperation to execute projects.

Disclosure Controls and Procedures

As the Company is classified as a Venture Issuer under applicable Canadian securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certificates, which it has done for the period ended September 30, 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 September 30, 2014.