

Management's Discussion & Analysis



Management's Discussion & Analysis

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (PREPARED IN US\$)

Basis of Presentation

The following Management's Discussion and Analysis (the "MD&A") dated May 29, 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 months ended March 31, 2014. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the three months end March 31, 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.

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 flow from operations:

\$000's	THREE MONTHS ENDED MARCH 31	
	2014	2013
Cash from/(used in) operating activities	(1,065)	158
Less: changes in non-cash working capital	(2,362)	(1,804)
Funds from operations	1,297	1,962

For the three month period ended March 31, 2014 the Company generated funds from operations before evaluation and exploration expense of US\$1.4 million.

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.

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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.

Since July 2013, an Egyptian military appointed interim President and cabinet have been responsible for governing Egypt, based on a clear roadmap to elections. The government implemented 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, implementing VAT and improving income tax collection. 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.

A new government was appointed in February 2014 to continue the effort 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 over 5 years, and securing IMF support. Presidential elections were held on May 26-27, 2014 to transition to a new democratically elected government, with Parliamentary elections planned for the fall.

The demonstrations and other events in Egypt have been largely confined to Egypt's major city centers and have had minimal effect on the Company's oil and gas operations with the exception of minor delays on the delivery of material and receipt of government permits for drilling and other operations. The Company will continue to carry out its operations and monitor the situation, and will continue to attempt to expand its asset base in Egypt in a diligent and prudent manner.

Strategy

Increase shareholder value through growth in production, reserves and cash flow. The Company's current portfolio offers both short term development opportunities and long-term exploration opportunities that contain significant oil and gas in place resource potential. Sea Dragon is also continuing to search for, identify and evaluate new and economically attractive investments.

Acquire interests with significant upside potential. The Company's growth strategy is based on working with established companies and identifying and negotiating the acquisition of assets with high growth potential. To date, Sea Dragon has acquired interests in 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 expected capital expenditure program for 2014 is approximately US\$8.8 million.

The Company incurred capital expenditure of US\$4.9 million during the first quarter of 2014; this comprised the US\$4.0 million signature bonus for the South Disouq concession, US\$0.8 million for new drilling on NW Gemsa (AASE-19 US\$ 0.1 million, AASE-19 sidetrack ("ST") US\$0.3 million, AASE-21 US\$0.3 million and miscellaneous US\$0.1 million) and US\$0.1 million for SHM.

The Company has budgeted US\$3.9 million of capital expenditure in the remainder of 2014 in line with the expected capital expenditure program.

The Company's forecast capital expenditure program for the year for NW Gemsa is US\$2.0 million and includes, but is not limited to, the drilling of two production wells, one water injector and the completion of one workover. The Company incurred US\$0.8 million during the first quarter of 2014 with a budgeted US\$1.2 million for the remainder of the year, in line with the forecast capital expenditure program.

The Company's forecast capital expenditure program for the year for SHM is US\$2.5 million and includes, but is not limited to, completion of one workover and a bonus payment contingent on the 10 year extension of the concession. The Company incurred US\$0.1 million during the first quarter of 2014 with a budgeted US\$2.4 million for the remainder of the year, in line with the forecast capital expenditure program.

The Company's forecast capital expenditure program for the year for South Disouq is US\$4.3 million which comprises the signature bonus for the concession and pre-seismic program technical studies. The Company incurred US\$4.0 million during the first quarter of 2014 with a budgeted US\$0.3 million for the remainder of the year, in line with the forecast capital expenditure program.

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 MARCH 31	
		2014	2013
OPERATIONAL			
Oil revenue	15,062	13,706	14,297
Royalties	(8,377)	(8,036)	(7,366)
	6,685	5,670	6,931
Gas revenue	102	95	–
Royalties	(43)	(40)	–
	59	55	–
NGL revenue	167	141	–
Royalties	(70)	(59)	–
	97	82	–
Operating Costs	(2,342)	(1,857)	(1,629)
Netback	4,499	3,950	5,302
Oil Sales (bbl/d)	1,570	1,489	1,495
Gas Sales (mcf/d)	1,110	1,058	–
Liquids Sales (bbl/d)	24	22	–
Total boe/d	1,779	1,686	1,495
Brent Oil Price (US\$/bbl)	\$108.70	\$108.14	\$112.07
Realized oil price (US\$/bbl)	\$104.26	\$102.31	\$106.28
Realized gas price (US\$/mcf)	\$1.00	\$1.00	–
Realized NGL price (US\$/bbl)	\$75.18	\$72.43	–
Net Realized price (US\$/boe)	\$93.65	\$91.86	\$106.28
Total Royalties (US\$/boe)	\$51.86	\$53.60	\$54.76
Operating costs (US\$/boe)	\$14.31	\$12.23	\$12.11
Netback (US\$/boe)	\$27.49	\$26.02	\$39.42
Capital expenditures	1,625	4,853	1,819

⁽¹⁾ Three months ended December 31, 2013

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Sales Volumes

Total sales volumes for the three months ended March 31, 2014 (the "Quarter") averaged 1,686 boe/d compared to 1,495 boe/d for the comparative period in the prior year. The increase was driven mainly by the commencement of Gas and NGL sales. The sales volume for oil in the quarter of 1,489 bbl/d was slightly down on the comparative quarter of 2013 due to the sale of the Kom Ombo concession.

The company had a full quarter of gas (1,058 mcf/d) and liquids (22 bbl/d) sales volumes and drilled two wells (0.2 net) in NW Gemsa; Al Amir SE 19 + ST and Al Amir SE-21.

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 months ended March 31, 2014 the Company received an average price of \$102.31 per barrel for oil compared to the average Brent Oil price ("Brent") of \$108.14 per barrel. The Company receives a discount to Brent due to the quality of the oil produced and a contracted discounted price levied by the refineries.

During the three months ended March 31, 2014 the Brent price ranged from a low of US\$105.73 per barrel to a high of US\$111.26 per barrel in March 2014. Due to continued economic growth in both developed and more importantly emerging markets, oil demand has increased providing price support for oil prices. In addition, turmoil in the Middle East and North Africa has further increased oil prices. At this time, Sea Dragon does not hedge any of its production.

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. Revenue has been recorded for gas and NGL based on framework prices in the concession agreement.

CRUDE OIL SALES

<i>\$000's except per unit amounts</i>	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Crude oil sales	15,062	13,706	14,297
Per bbl	104.26	102.31	106.28

Crude oil sales for the three months ended March 31, 2014 was US\$13.7 million compared to US\$14.3 million for the three months ended March 31, 2013. The March 31, 2013 crude oil sales figure includes US\$2.1 million related to the Kom Ombo concession that was sold on November 1, 2013.

Crude oil sales for the three months ended March 31, 2014 were generated from NW Gemsa (US\$10.2 million) and Shukheir Marine (US\$3.5 million).

Variance from prior quarter

For the three months ended March 31, 2014 the decrease in revenue is attributable to a 2 per cent decrease in realized sales price and a 7 percent decrease in sales volumes from the prior quarter ending December 31, 2013. The decrease in sales volume is due primarily to the disposal of the Kom Ombo concession.

<i>\$000's</i>	
Three months ended December 31, 2013	15,062
Price variance	(263)
Production variance	(1,093)
Three months ended March 31, 2014	13,706

Variance from prior year

For the three months ended March 31, 2014 the decrease in revenue is due to a 4 per cent decrease in realized sale price from the prior year ending March 31, 2013.

\$000's

Three months ended March 31, 2013	14,297
Price variance	(534)
Production variance	(57)
Three months ended March 31, 2014	13,706

Gas Sales

The net gas sales for the Quarter were \$0.055 million, see operational and financial highlights table above.

Natural Gas Liquids ("NGL") Sales

The net NGL sales for the Quarter were \$0.082 million, see operational and financial highlights table above.

Royalties

\$000's except per unit amounts	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Royalties	8,490	8,135	7,366
Per bbl	51.86	53.60	54.76
Royalties as a percent of revenue (%)	55	58	52

Royalties fluctuate in Egypt from quarter to quarter due to changes in the amount of cost oil allocated to contractors. 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 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 their joint venture partners (the "Contractor") subject to the limitation of the cost recovery pool. Oil revenue, up to a specified percentage is available to the Contractor for recovery of 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.

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Direct operating costs

<i>\$000's except per unit amounts</i>	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Direct operating costs	2,342	1,857	1,629
Per bbl	14.31	12.23	12.11

Direct operating costs for the three months ended March 31, 2014 were US\$1.9 million (US\$12.23 per bbl), compared to US\$1.6 million (US\$12.11 per bbl) in the comparative period for the prior year. The operating costs for the three months ended March 31, 2014 increased compared to the prior year due to higher Oil HTS tariffs and indirect costs in NW Gemsa and higher opex and indirect costs in Shukheir Marine. Operating costs per boe from Qtr. 2 2013 onwards are calculated using the sales volumes from oil, gas and liquids.

Current taxes

<i>\$000's except per unit amounts</i>	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Current taxes	1,561	1,394	1,507

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.

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 historic 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. The final value of the additional costs is yet to be determined however an additional loss has been recorded based on costs confirmed to date.

Impact on the Balance Sheet

The agreed additional costs of US\$0.17 million, have reduced the outstanding settlement amount from US\$0.78 million as at December 31, 2013 to US\$0.61 million. Sea Dragon also received the third settlement instalment, as per the terms of the Sale and Purchase Agreement ("SPA") on February 19, 2014 and the remaining balance due to Sea Dragon as at March 31, 2014 is now recalculated as US\$0.33 million. The amount of US\$0.33 million is reflected in the Trade and other receivables balance contained in the MD&A and Note 6 of the interim consolidated financial statements.

Impact on Statement of Comprehensive Loss

The agreed additional costs of US\$0.17 million and additional legal costs of US\$0.13 million related to the sale, totaling US\$0.29 million have been recorded as a loss on disposal of the Kom Ombo concession on the face of the Statement of Comprehensive Loss.

Impact on the Statement of Cash Flows

On the face of the Statement of Cash Flows, within the cash flows from/ (used in) investing activities section, an amount of US\$0.26 million is shown as cash from the disposal of Kom Ombo concession. This represents the third instalment of US\$0.28 million, under the SPA, less legal costs of US\$0.02 million.

Capital expenditures

\$000's	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Property, plant and equipment expenditures	(873)	(853)	(1,819)
Exploration and evaluation expenditures	(752)	(4,000)	–
	(1,625)	(4,853)	(1,819)

During the three months ended March 31, 2014, the Company incurred US\$4.9 million of capital expenditures of which US\$0.9 million included drilling two wells (AASE-19+ sidetrack and AASE-21) in the NW Gemsa concession and US\$4.0 million related to the signature bonus for South Disouq.

Included within the PP&E additions of US\$0.9 million are accrued expenditures of US\$0.4 million for the drilling of AASE-19 + ST and AASE-21 in the NW Gemsa concession.

The following table is 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	MARCH 31, 2014	DECEMBER 31, 2013
Oil and gas properties, at cost	33,541	32,688
Accumulated depletion and impairment	(11,298)	(9,918)
	22,243	22,770
Furniture and fixtures, at cost	490	490
Accumulated depreciation	(238)	(198)
	252	292
	22,495	23,062

At March 31, 2014, US\$2.0 million (March 31, 2013 - US\$4.6 million) of future development costs are included in the calculation of cost in determining the depletion rate.

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

\$000's	MARCH 31, 2014	DECEMBER 31, 2013
Exploration and evaluation assets, beginning of period	752	752
Additions	4,000	–
Exploration well write off	(187)	–
Exploration and evaluation assets, end of period	4,565	752

At March 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.

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General and administrative costs

<i>\$000's</i>	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Wages and employee costs	446	538	551
Consultants	318	221	210
Travel	77	38	120
Office expense	394	191	237
Bank charges	9	6	5
Restructuring costs	267	—	—
Total	1,511	994	1,123

General and administrative (“G&A”) costs for the three months ended March 31, 2014 were US\$1.0 million, compared to US\$1.1 million for the comparative period in the prior year; a decrease of US\$0.1 million. The decrease is due to a reduction in international flights, the closure of the Calgary office and lower office rent for London.

Stock based compensation

Stock-based compensation expense is the amortization over the vesting period of the fair value of stock options granted to employees, directors and key consultants of the Company. The fair value of all options granted is estimated using the Black-Scholes option pricing model. The non-cash compensation expense for the three months ended March 31, 2014 and 2013, was \$0.055 million and \$0.175 million.

Depletion, depreciation and amortization (“DD&A”)

<i>\$000's</i>	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Depletion, depreciation and amortization	645	1,420	1,457
Per bbl	4.51	9.36	10.83

For the three months ended March 31, 2014, depletion, depreciation and amortization (“DD&A”) was \$1.4 million compared to \$1.5 million for the comparative period in the prior year.

Net Earnings

For the three months ended March 31, 2014, the Company recorded a net loss of US\$1.0 million, compared to a net loss of US\$6.8 million for the comparative period of the prior year. There is a reduction in the loss recorded at March 1, 2014 when compared to the equivalent period of 2013 due to the impairment of the Kom Ombo concession in the prior year. The Company had lower revenues and income tax expenses in the three months ended March 31, 2014 as compared to the comparative period due to the disposal of the Kom Ombo concession.

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 MARCH 31	
		2014	2013
High (CDN)	\$ 0.08	\$ 0.10	\$ 0.08
Low (CDN)	\$ 0.06	\$ 0.06	\$ 0.06
Average daily volume	592,834	278,602	496,305

The following table summarizes the outstanding common shares and options as at May 27, 2014, March 31, 2014 and December 31, 2013.

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.

OUTSTANDING AS AT:	MAY 27, 2014	MARCH 31, 2014	DECEMBER 31, 2013
Common shares	376,459,358	376,459,358	376,459,358
Options	20,000,000	20,000,000	24,660,000

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

EXERCISE PRICE RANGE	OUTSTANDING OPTIONS		VESTED OPTIONS	
	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE
\$0.01 to \$0.18	19,900,000	3.3 years	8,016,647	2.9 years
\$0.40 to \$0.59	100,000	0.6 years	100,000	0.6 years
	20,000,000	3.3 years	8,116,647	2.9 years

Capital Resources

As at March 31, 2014 the Company had working capital of approximately US\$5.7 million including cash on hand of US\$0.9 million. The Company expects to fund its 2014 capital program from funds from operations, cash on hand and utilization of the debt facility.

As at March 31, 2014, the Company had US\$8.6 million in accounts receivable outstanding compared to US\$7.1 million as at December 31, 2013. Approximately US\$5.8 million is due from the government of Egypt controlled corporations for oil sales; US\$3.0 million is expected to be received in the normal course of operations, with the remaining US\$2.8 million withheld as a rolling guarantee for the work program of the South Disouq concession.

As at March 31, 2014 the Company has utilized US\$4.5 million under the Facility, consisting of i) US\$1.5 million cash drawdown under Tranche B and ii) US\$3.0 million letter of guarantee issued under Tranche A in relation to the work program for the South Disouq concession.

Subsequent to the end of the quarter, the Company has increased its utilization of the Facility to a total of US\$9.0 million, consisting of i) cash drawdowns of US\$5.5 million under Tranche A and US\$0.5 million under Tranche B, and ii) the South Disouq letter of guarantee for US\$3.0 million.

The Company holds US\$3.0 million of proceeds from the Facility as restricted cash in order to provide a US\$3.0 million guarantee in relation to the work program for the South Disouq concession. In aggregate, the Company has satisfied its obligation to provide US\$9.0 million in guarantees related to 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 letters of guarantee and restricted cash.

The Company believes it is appropriately funded to meet its obligations.

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As of the date of the MD&A, May 29, 2014, the Company has collected \$1.55 million from the government of Egypt controlled corporations.

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

\$000's	MARCH 31, 2014	DECEMBER 31, 2013
Current Assets		
Cash and cash equivalents	875	4,287
Trade and other receivables	8,576	7,130
Inventory	2,588	3,279
Deferred transaction costs	371	371
Current Assets	12,410	15,067
Current Liabilities		
Bank indebtedness	1,500	–
Trade and other payables	5,163	5,188
Current Liabilities	6,663	5,188
Working Capital	5,747	9,879

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

\$000's	PRIOR QUARTER	THREE MONTHS ENDED MARCH 31	
		2014	2013
Sources:			
Funds from operations	177	1,297	1,962
Cash from disposal of materials inventory	411	534	–
Cash from disposal of office assets	11	–	–
Cash from disposal of Kom Ombo Concession	6,566	261	–
Proceeds from bank facility	1,001	2,000	2,000
Effect of foreign exchange on cash and cash equivalents	(608)	(142)	101
	7,558	3,950	4,063
Uses:			
Property, plant and equipment expenditures	(873)	(500)	(1,819)
Exploration and evaluation expenditures	(752)	(4,000)	–
Repayment of bank facility	(4,204)	(500)	(500)
Changes in non-cash working capital	1,258	(2,362)	(1,804)
	(4,571)	(7,362)	(4,123)
Increase/(decrease) in cash	2,987	(3,412)	(60)
Cash and cash equivalents, beginning of period	1,300	4,287	5,658
Cash and cash equivalents, end of period	4,287	875	5,598

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 March 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 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:

	TOTAL PER FS ⁽¹⁾	US\$	EGP	GBP	OTHER
<i>As at March 31, 2014</i>	<i>US\$ EQUIVALENT</i>				
Cash and cash equivalents	875	327	261	205	82
Trade and other receivables	8,576	8,257	–	278	41
Bank indebtedness	(1,500)	(1,500)	–	–	–
Trade and other payables	(5,163)	(2,418)	(2,395)	(152)	(198)
Balance sheet exposure	2,788	4,666	(2,134)	331	(75)

⁽¹⁾ denotes Financial Statements

Exchange Rates

The average exchange rate during the three months ended March 31, 2014 was 1 US\$ equals:

AVERAGE: 1 January 2014 to 31 March 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.1249	0.6132	0.7413	6.9496

AVERAGE: 1 January 2013 to 31 March 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
Period Average	1.0284	0.6675	0.7771	6.7532

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

PERIOD END: March 31, 2014

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
March 31, 2014	1.1048	0.6006	0.7263	6.9102

PERIOD END: March 31, 2013

	USD / CAD	USD / GBP	USD / EUR	USD / EGP
March 31, 2013	1.0171	0.6575	0.7800	6.6804

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FOR THE THREE MONTHS ENDED MARCH 31, 2014 (PREPARED IN US\$)

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 March 31, 2014 the Company's trade and other payables were:

	MARCH 31, 2014	DECEMBER 31, 2013
Current		
Trade Payables	2,508	2,787
Accruals	2,385	2,175
Other payables	270	226
	5,163	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	
	MARCH 31, 2014	DECEMBER 31, 2013
Cash and cash equivalents	875	4,287
Trade and other receivables	8,576	7,130
Total	9,451	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 US\$3.0 million outstanding receivables in the normal course of operations, with US\$2.8 million withheld as a rolling 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:

	MARCH 31, 2014	DECEMBER 31, 2013
Government of Egypt controlled corporations	5,766	4,629
Joint venture partners	872	579
Other	1,938	1,922
Total trade and other receivables	8,576	7,130

The Company's most significant customers, EGPC and GPC, government controlled corporations in Egypt account for US\$5.8 million of the trade receivables at March 31, 2014 (December 31, 2013: US\$4.6 million). Trade receivables include US\$ 2.8 million for Shukheir Marine and US\$3.0 million for NW Gemsa.

As at March 31, 2014 the trade receivables pertaining to Shukheir Marine of US\$2.8 million have been withheld as a rolling guarantee in respect of the work obligation under the South Disouq concession agreement. The maximum value of the withholding at any given time will be US\$3.0 million.

The Shukheir Marine trade receivables withheld of US\$ 3.0 million, related to the rolling guarantee, 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 joint venture partner receivables of US\$0.9 million relates to partner current accounts for the NW Gemsa and Shukheir Marine concessions. The Company records its net share of the working capital for NW Gemsa, inventory and advances – deposits, in its accounts and this represents US\$0.8 million.

The other receivables of US\$1.9 million consist primarily of US\$0.7 million accrued gas and liquid revenue yet to be invoiced, US\$0.4 million due from Dana Gas in relation to Kom Ombo secondee costs and US\$0.3 million due for the working capital and interim period adjustment related to the disposal of the Kom Ombo concession.

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

	MARCH 31, 2014	DECEMBER 31, 2013
Current (less than 90 days)	7,246	6,848
Past due (more than 90 days)	1,330	282
Total	8,576	7,130

The balances which are past due are not considered impaired.

Subsequent to March 31, 2014 the Company collected US\$1.55 million from government of Egypt controlled corporations, thereby reducing the current (less than 90 days) balance by US\$1.55 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:

	MARCH 31, 2014	DECEMBER 31, 2013
Equity	33,363	34,341
Working capital ⁽¹⁾	(5,747)	(9,879)
Total capital	27,616	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 March 31, 2014, when compared to December 31, 2013 by US\$4.0 million due to a decrease in cash and cash equivalents and inventory and an increase in trade and other receivables and bank debt.

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FOR THE THREE MONTHS ENDED MARCH 31, 2014 (PREPARED IN US\$)

SUMMARY OF QUARTERLY RESULTS

FISCAL YEAR	2014		2013			2012		
Financial \$000's	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash, beginning of period	4,287	1,300	2,232	5,598	5,658	5,405	7,179	4,285
cash, end of period	875	4,287	1,300	2,232	5,598	5,658	5,405	7,179
Working capital	5,747	9,879	12,209	6,393	6,806	6,645	6,194	7,197
Funds from operations	1,297	178	2,322	949	1,962	2,083	965	(213)
per share	(0.00)	0.00	0.01	0.00	0.01	0.00	0.00	(0.00)
Net Income/(loss)	(1,033)	(1,071)	845	(662)	(6,820)	(6,447)	(19,498)	(1,377)
per share	(0.00)	0.00	(0.00)	(0.00)	(0.02)	(0.02)	(0.05)	(0.00)
Capital expenditures	4,853	1,624	2,059	1,635	1,819	1,358	2,445	3,140
Total assets	40,026	39,529	43,678	43,184	44,711	52,006	54,885	78,604
Shareholders' equity	33,363	34,341	35,251	34,220	34,605	41,250	47,641	67,061
Common shares outstanding (000's)	376,459	376,459	376,459	376,459	376,459	376,459	376,459	376,459
Warrants outstanding (000's)	–	–	–	–	–	–	30,000	30,000
Operational								
Oil sales (bbl/d)	1,489	1,570	1,727	1,716	1,495	1,273	1,149	1,147
Gas sales (mcf/d)	1,058	1,110	1,117	1,058	–	–	–	–
NGL sales (bbl/d)	22	24	25	24	–	–	–	–
Total boe/d	1,686	1,779	1,938	1,916	1,495	1,273	1,149	1,147
Brent oil price (\$/bbl)	108.14	108.70	110.60	101.47	112.07	110.51	109.28	108.44
Realized oil price (\$/bbl)	102.31	104.26	105.10	97.64	106.28	105.52	105.33	103.90
Realized gas price (\$/mcf)	1.00	1.00	1.00	1.00	–	–	–	–
Realized NGL price (\$/bbl)	72.43	75.18	77.35	65.00	–	–	–	–
Net Realized price (\$/boe)	91.86	93.65	95.23	88.81	–	–	–	–
Royalties (\$/boe)	53.60	51.86	49.52	45.88	54.76	55.49	55.96	56.29
Operating costs (\$/boe)	12.23	14.31	12.30	13.76	12.11	4.94	9.13	8.36
Netback (\$/boe)	26.02	27.49	33.26	29.17	39.42	45.09	40.24	39.25

The cash balance decreased during Q1 due, in part, to the payment of the US\$4.0 million signature bonus for the South Disouq concession, higher partner cash calls as a result of recent drilling campaigns and reduced trade receivables due to the Shukheir Marine withheld revenues.

Working capital has decreased from Q4 2013 due to a lower cash position of US\$ 3.4 million, increased trade and other receivables related to the rolling withheld Shukheir Marine receivables of US\$ 1.4 million, the disposal of Shukheir Marine materials inventory of US\$ 0.7 million and bank debt of US\$ 1.5 million.

Funds from operations have increased compared to the prior quarter due to lower unrealized foreign exchange losses and the additional loss on the Kom Ombo concession.

Oil sales volumes for Q1 2014 have decreased as compared to prior quarters due to the disposal of the Kom Ombo concession. Netbacks for Q1 2014 have decreased from Q4 2013 due to lower revenues as a result of the Kom Ombo disposal, higher royalties due to the excess cost oil for the NW Gemsa concession and lower operating costs.

SUBSEQUENT EVENTS

- On May 6, 2014 the Al Amir S.E. 21 development well, on the NW Gemsa concession, was completed and placed on production. In addition the Al Amir S.E. 22 water injection well, in the NW Gemsa concession, was completed in May, 2014.
- The Company completed and filed the 2013 Annual Information Form (“AIF”) on April 30, 2014.
- Following a handover period, on April 30, 2014 the Company was notified of a change in Operator for the NW Gemsa concession effective May 1, 2014.
- In May 2014, the Company posted an aggregate of US\$6.0 million in guarantees and restricted cash to secure the South Disouq work program as per the Concession terms (refer to Note 10 of the Financial Statements for details).

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 March 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 first 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.

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FOR THE THREE MONTHS ENDED MARCH 31, 2014 (PREPARED IN US\$)

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 be 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.

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FOR THE THREE MONTHS ENDED MARCH 31, 2014 (PREPARED IN US\$)

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 March 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 March 31, 2014.