EUROGAS INTERNATIONAL INC.

2018 THIRD QUARTER REPORT

EUROGAS INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and natural gas exploration company targeting oil and natural gas reserves. Eurogas International is incorporated under the *Companies Act* (Barbados), and its common shares trade on the Canadian Securities Exchange ("CSE") under the symbol EI. At September 30, 2018, Dundee Corporation, the principal shareholder of the Corporation, controlled 54% of the issued and outstanding common shares of the Corporation.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of October 31, 2018 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's audited financial statements as at and for the year ended December 31, 2017 (the "2017 Audited Financial Statements") and the unaudited condensed interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2018 (the "September 2018 Interim Financial Statements") prepared under International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars, unless otherwise specified.

GOING CONCERN ASSUMPTION

The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for any such economically recoverable reserves, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation, and the working capital from future profitable production or proceeds from the disposition of assets. The September 2018 Interim Financial Statements do not give effect to any adjustments which would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The amounts the Corporation may realize on the disposition of its assets or the discharging of its liabilities in other than the normal course of its business may be significantly different than the carrying value of these assets and liabilities as reflected in the September 2018 Interim Financial Statements.

SFAX OFFSHORE EXPLORATION PERMIT

The Corporation has entered into a joint operating arrangement with DNO Tunisia AS ("DNO Tunisia"), and with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the joint venturers agreed to undertake exploration, evaluation and extraction activities on the Sfax offshore permit (the "Sfax Permit"), located in Tunisia, and targeting oil and natural gas reserves. On July 30, 2018, Panoro Energy ASA ("Panoro"), an independent exploration and production company based in London, England and listed on the Oslo Stock Exchange, acquired 100% of DNO Tunisia, following which Panoro became the operator of the Sfax Permit. Following completion of the transaction, Panoro assumed responsibility for all drilling and other obligations associated with the Sfax Permit, including any monetary penalties arising due to non-fulfillment of work commitments agreed to under the terms of the Sfax Permit. The Corporation holds a 5.625% working interest in the Sfax Permit, subject to certain cumulative revenue thresholds and priority recovery of expenditures.

During 2015, the joint venturers sought an extension of the first renewal period of the Sfax Permit, and in August 2015, the Tunisian authorities approved a two-year extension, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017. On July 21, 2017, the Tunisian authorities approved a further one-year extension to December 8, 2018. Following its acquisition of DNO Tunisia, Panoro announced that it had initiated the process to request an extension or renewal of the Sfax Permit beyond the current December 8, 2018 expiry date.

Notwithstanding the above, the Corporation's dependency of the success of its partners, the current capital markets environment, and the associated volatility in the price of oil causes significant uncertainties to the Corporation's determination of possible cash flows from its oil and natural gas activities. Accordingly, the Corporation carries its investment in the Sfax Permit at a cost of $nil as at September 30, 2018 and December 31, 2017.

Agreement with Delta Hydrocarbons B.V. ("Delta")

In prior years and prior to its current working interest arrangements with Panoro, the Corporation and APEX had entered into a farm out option agreement with Delta pertaining to the farm out of a 50% working interest in the Sfax Permit. Delta subsequently exited from the farm out option agreement and under a settlement agreement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the Corporation and APEX, to a maximum of US$20.0 million. Payments to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil or cost gas portion of any future production revenues realized from the Sfax Permit.

INNOVATIVE PRODUCTION SERVICES, LTD. ("IPS")

The Corporation currently holds a 45% interest in IPS. The sole business activity of IPS is the ownership and continuing maintenance of a mobile offshore production unit (the "MOPU"), which was acquired by IPS in May 2007 in expectation of leasing the equipment to affiliated companies to facilitate their producing, processing and transporting of oil and natural gas. The MOPU is currently inactive and is moored in Louisiana, in the United States of America. The Corporation accounts for its investment in IPS using the equity method of accounting. During the nine months ended September 30, 2018, the Corporation's share of costs associated with the MOPU was $144,456 (nine months ended September, 2017 – $210,071).

RESULTS OF OPERATIONS

Comparison of the Nine Months Ended September 30, 2018 with the Nine Months Ended September 30, 2017

During the nine months ended September 30, 2018, the Corporation incurred a net loss of $1.4 million, or a loss of approximately $0.05 per share, consistent with a net loss of $1.4 million, or a loss of approximately $0.05 per share incurred by the Corporation during the same period of 2017.

The Corporation's net loss during the nine months ended September 30, 2018 includes $961,857 (nine months ended September 30, 2017 – $961,857) of interest expense associated with dividends payable on the Corporation's Series A Preference Shares outstanding (see *"Liquidity and Capital Resources – Series A Preference Shares"*).

General and administrative expenses incurred during the nine months ended September 30, 2018 were $113,878, compared with $127,950 incurred during the same period of the prior year. Primarily as a result of reduced business activities, the Corporation experienced lower corporate and professional fees during the first nine months of 2018, compared with the same period of 2017.

Interest expense was $190,853 during the nine months ended September 30, 2018, compared with $151,515 incurred in the same period of the prior year. Included in interest expense during the nine months ended September 30, 2018 is $190,398 (nine months ended September 30, 2017 – $151,113 associated with the Corporation's $5.0 million credit facility provided by Dundee Corporation (see *"Liquidity and Capital Resources – Cash Resource Availability"*).

Comparison of the Three Months Ended September 30, 2018 with the Three Months Ended September 30, 2017

During the three months ended September 30, 2018, the Corporation incurred a net loss of $462,361, or a loss of $0.01 per share. This compares with a net loss of $443,551 or a loss of $0.01 per share incurred during the same period of the prior year.

General and administrative expenses incurred during the third quarter of 2018 were $32,630, compared with $34,874 incurred during the same quarter of the prior year. The decrease in general and administrative expenses reflects both lower corporate and professional costs, as well as lower general office costs associated with reduced business activities.

Summary of Quarterly Results

	2018			2017				2016
	30-Sept	30-Jun	31-Mar	31-Dec	30-Sept	30-Jun	31-Mar	31-Dec
Net loss	$ (462,361)	$ (485,241)	$ (480,844)	$ (475,390)	$ (443,551)	$ (510,749)	$ (464,348)	$ (486,943)
Capital expenditures	-	-	-	-	-	-	-	-

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At September 30, 2018, the Corporation had cash of $4,249, compared with $592 at December 31, 2017. The Corporation's current cash resources are insufficient to meet its current obligations, including its obligations pursuant to the terms of the Series A Preference Shares and associated dividends as outlined below. The Corporation is considering its future business strategies and assessing the possibility of alternative financing options, including possible debt or equity issuances or the monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these alternatives.

The Corporation has established a $5.0 million revolving demand credit facility with Dundee Corporation to provide the necessary operating funds to meet certain ongoing general and administrative expenses. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%, and are due on demand. At September 30, 2018, the Corporation had drawn $5.5 million against this facility. Although the Corporation has exceeded amounts available pursuant to these arrangements, Dundee Corporation has not demanded payment.

As lender to the Corporation, Dundee Corporation may, at its discretion, require the Corporation to convert all of the amounts outstanding pursuant to the credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares, defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of $0.05 per common share. Any issuance of common shares by the Corporation pursuant to these arrangements will require customary approvals, including regulatory approvals.

Series A Preference Shares

The Corporation has issued 32,150,000 Series A Preference Shares with a face value of $32.15 million. The Series A Preference Shares are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The Series A Preference Shares issued by the Corporation rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle Dundee Energy to a fixed preferential cumulative dividend at a rate of 4% per annum. Dundee Energy may reinvest any such dividends received into common shares of the Corporation, subject to obtaining the necessary approvals.

The Series A Preference Shares may be redeemed, at the option of either the Corporation or Dundee Energy, at any time, at a price equal to their face value of $32.15 million.

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to the redemption of the Series A Preference Shares and its entitlement to demand payment of the associated cumulative dividends outstanding. The terms of the Series A Preference Shares and, specifically, the right of retraction by Dundee Energy, expose the Corporation to significant liquidity risk.

The Series A Preference Shares are non-voting except in the event that the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears for more than eight quarters, Dundee Energy is entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of the Corporation. At September 30, 2018, cumulative dividends outstanding on the Series A Preference Shares were $13.1 million (December 31, 2017 – $12.1 million), representing outstanding dividends for more than eight quarters.

However, at September 30, 2018, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

Common Shares

At October 31, 2018, there were 31,105,526 common shares outstanding.

COMMITMENTS

In prior years, the Corporation and APEX had entered into a farm out option agreement with Delta that was subsequently terminated. The Corporation and APEX are obligated to make certain payments to Delta if and when proceeds are received by the Corporation and APEX, to a maximum of US$20.0 million. Payments to Delta may include a share of the proceeds from the cost oil or cost gas portion of any future production revenues realized from the Sfax Permit.

RELATED PARTY TRANSACTIONS

Other than as described in note 12 to the September 2018 Interim Financial Statements, there have been no significant changes in the nature and scope of related party transactions to those described in note 12 to the 2017 Audited Financial Statements and the accompanying MD&A.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities and with its current and future stages of development. These risks are detailed in the section entitled "*Business Risks*" in the Corporation's MD&A accompanying its 2017 Audited Financial Statements. The Corporation has not identified any material changes to the risk factors affecting its business and its approach to managing those risks from those discussed in the document referred to above.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and amounts in net operating income or loss, and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of net operating income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of the Corporation's significant accounting policies is provided in note 3 to the 2017 Audited Financial Statements and a summary of critical accounting judgments, estimates and assumptions made by the Corporation are provided in note 4 to the 2017 Audited Financial Statements. There have been no significant changes to the Corporation's significant accounting policies or to the judgments, estimates and assumptions made by the Corporation in the preparation of the September 2018 Interim Financial Statements from those significant accounting policies and judgments, estimates and assumptions made by the Corporation in the preparation of its 2017 Audited Financial Statements.

CONTROLS AND PROCEDURES

In connection with exemption orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer and the Chief Financial Officer of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the September 2018 Interim Financial Statements and in the accompanying MD&A.

In contrast to the certificate that would be issued in accordance with the Canadian Securities Administrators' National Instrument 52-109, the Venture Issuer Basic Certification includes a "Note to Reader" stating that the Chief Executive Officer and Chief Financial Officer do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109.

Notwithstanding the filing of a Venture Issuer Basic Certificate, the Corporation makes significant efforts to maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, the Chief Executive Officer and Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in compliance with IFRS. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were any changes to the Corporation's control over financial reporting during the three and nine months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no changes identified during their evaluation.

It should be noted that while the Corporation's Chief Executive Officer and the Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, there are inherent limitations in all internal control systems and no disclosure controls and procedures or internal control over financial reporting will provide complete assurance that no future errors or fraud will occur. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the risk that the Corporation is unable to access sufficient capital from internal and external sources, volatility of commodity prices, currency fluctuations, risks associated with foreign operations, exploration, development and production risks, risks of not being able to obtain or renew permits and licenses, environmental risks, the impact of general economic conditions, reliance on key personnel and management, competition from other industry participants, and other risk factors discussed or referred to in the section entitled *"Business Risks"* in this MD&A and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they might have on the Corporation. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") at *www.sedar.com*.

MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED CONDENSED INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed interim financial statements of Eurogas International Inc. ("Eurogas International" or the "Corporation") as at and for the three and nine months ended September 30, 2018 (the "September 2018 Interim Financial Statements") are the responsibility of the management and Board of Directors of the Corporation.

The September 2018 Interim Financial Statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in note 3 to the Corporation's audited annual financial statements as at and for the year ended December 31, 2017. In preparing the September 2018 Interim Financial Statements, management has made informed judgments and estimates in accounting for transactions which were not complete at the date of the statement of financial position. In the opinion of management, the September 2018 Interim Financial Statements of the Corporation have been prepared within acceptable limits of materiality and are in compliance with International Accounting Standard 34, "*Interim Financial Reporting*".

Management has established processes which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the September 2018 Interim Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated, or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as at the date of, and for the periods presented by, the September 2018 Interim Financial Statements; and (ii) the September 2018 Interim Financial Statements fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation, as at the date of and for the periods presented by the September 2018 Interim Financial Statements.

The Board of Directors is responsible for reviewing and approving the September 2018 Interim Financial Statements, together with other financial information of the Corporation and for ensuring that management fulfills its financial reporting responsibility. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee has met with management to review the financial reporting process and other financial information of the Corporation, including the September 2018 Interim Financial Statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial disclosure of the Corporation, including the September 2018 Interim Financial Statements, for issuance to the Corporation's shareholders.

Management recognizes its responsibility for conducting the Corporation's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed) Bruce Sherley
Acting Chief Executive Officer

(signed) D. Christopher Hope
Chief Financial Officer

Toronto, Canada
October 31, 2018

NOTICE TO READER

The September 2018 Interim Financial Statements have been prepared by and are the responsibility of management. These financial statements have not been reviewed by the Corporation's independent external auditor.

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(unaudited)

(expressed in Canadian dollars)

		As at	
	Note	September 30, 2018	December 31, 2017
ASSETS			
Current			
Cash		$ 4,249	$ 592
		4,249	592
Non-current			
Equity accounted investment	4	286,830	286,830
		$ 291,079	**$ 287,422**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 850,280	$ 660,703
Amounts due to Dundee Corporation	6	5,495,740	5,215,071
Accrued dividends on Series A Preference Shares	8	13,059,393	12,097,536
Series A Preference Shares	8	32,150,000	32,150,000
		51,555,413	50,123,310
SHAREHOLDERS' DEFICIENCY			
Share capital	9	1	1
Contributed surplus	9	18,000	18,000
Deficit		(51,282,335)	(49,853,889)
		(51,264,334)	(49,835,888)
		$ 291,079	**$ 287,422**

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Going Concern Assumption (Note 1)

Commitments (Note 13)

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)

(expressed in Canadian dollars, except per share amounts)

	Note	For the three months ended September 30, 2018	 September 30, 2017	For the nine months ended September 30, 2018	 September 30, 2017
ITEMS IN NET LOSS					
General and administrative expenses	10	$ (32,630)	$ (34,874)	$ (113,878)	$ (127,950)
Dividends on Series A Preference Shares	8	(324,142)	(324,142)	(961,857)	(961,857)
Other interest expense	6	(67,615)	(54,241)	(190,853)	(151,515)
Foreign exchange (loss) gain		11,076	17,204	(17,402)	32,745
LOSS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED INVESTMENT		(413,311)	(396,053)	(1,283,990)	(1,208,577)
Share of loss from equity accounted investment	4	(49,050)	(47,498)	(144,456)	(210,071)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**$ (462,361)**	**$ (443,551)**	**$ (1,428,446)**	**$ (1,418,648)**
NET LOSS PER COMMON SHARE					
Basic and diluted net loss per common share	11	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.05)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(unaudited)

(expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2016	$ 1	$ 18,000	$ (47,959,851)	$ (47,941,850)
Transactions for the nine months ended September 30, 2017				
Net loss for the period	-	-	(1,418,648)	(1,418,648)
Balance, September 30, 2017	1	18,000	(49,378,499)	(49,360,498)
Transactions from October 1, 2017 to December 31, 2017				
Net loss for the period	-	-	(475,390)	(475,390)
Balance, December 31, 2017	1	18,000	(49,853,889)	(49,835,888)
Transactions for the nine months ended September 30, 2018				
Net loss for the period	-	-	(1,428,446)	(1,428,446)
Balance, September 30, 2018	**$ 1**	**$ 18,000**	**$ (51,282,335)**	**$ (51,264,334)**

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOW
(unaudited)

(expressed in Canadian dollars)

	Note	For the nine months ended September 30, 2018	September 30, 2017
OPERATING ACTIVITIES			
Net loss for the period		$ (1,428,446)	$ (1,418,648)
Non-cash items in net loss:			
Share of loss from equity accounted investment	4	144,456	210,071
Non-cash changes in accrued dividends on Series A Preference Shares	8	961,857	961,857
		(322,133)	(246,720)
Changes in non-cash working capital:			
Accounts payable and accrued liabilities		189,577	239,585
CASH USED IN OPERATING ACTIVITIES		(132,556)	(7,135)
FINANCING ACTIVITIES			
Changes in amounts due to Dundee Corporation		280,669	217,135
CASH PROVIDED FROM FINANCING ACTIVITIES		280,669	217,135
INVESTING ACTIVITIES			
Investment in equity accounted investment	4	(144,456)	(210,071)
CASH USED IN INVESTING ACTIVITIES		(144,456)	(210,071)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD		3,657	(71)
CASH, BEGINNING OF PERIOD		592	347
CASH, END OF PERIOD		**$ 4,249**	**$ 276**

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

Eurogas International Inc. ("Eurogas International" or the "Corporation") is incorporated under the *Companies Act (Barbados)*, and is an independent oil and gas exploration company, targeting oil and natural gas reserves. The Corporation is domiciled in Barbados and its registered office is c/o George Walton Payne & Company, Suites 205-207 Dowell House, Roebuck & Palmetto Streets, City of Bridgetown, Barbados.

The common shares of the Corporation are listed on the Canadian Securities Exchange ("CSE") under the symbol "EI". At September 30, 2018, Dundee Corporation, the principal shareholder of the Corporation, controlled 54% of the issued and outstanding common shares of the Corporation.

These unaudited condensed interim financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2018, the Corporation had negative working capital of $51,551,164 (December 31, 2017 – $50,122,718) and during the nine months then ended, it incurred a net loss of $1,428,446 (nine months ended September 30, 2017 – $1,418,648). The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for any such economically recoverable reserves, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation, and working capital from future profitable production or proceeds from disposition of assets. There can be no assurance that the Corporation will be successful in achieving these initiatives. These material uncertainties may cast significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern.

These unaudited condensed interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. If the Corporation is not able to continue as a going concern, the Corporation may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements. These differences could be material.

2. BASIS OF PREPARATION

These unaudited condensed interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2018 ("September 2018 Interim Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting, as applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "*Interim Financial Reporting*". The September 2018 Interim Financial Statements should be read in conjunction with the Corporation's audited financial statements as at and for the year ended December 31, 2017 ("2017 Audited Financial Statements") which were prepared in accordance with IFRS as applicable for annual financial statements. The September 2018 Interim Financial Statements were approved by the Board of Directors of the Corporation for issuance on October 31, 2018.

Other than as described below, the September 2018 Interim Financial Statements follow the same accounting principles and methods of application as those disclosed in note 3 to the 2017 Audited Financial Statements.

Changes in Accounting Policies Implemented During the Nine Months Ended September 30, 2018

IFRS 9, "Financial Instruments" ("IFRS 9")

On January 1, 2018, the Corporation implemented final amendments to IFRS 9 which introduce new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value that focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The implementation of amendments to IFRS 9 had no impact to the Corporation's September 2018 Interim Financial Statements.

IFRS 2, "Share-based Payment" ("IFRS 2")

On January 1, 2018, the Corporation implemented amendments to IFRS 2, which clarify how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The implementation of amendments to IFRS 2 had no impact to the Corporation's September 2018 Interim Financial Statements.

Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective

There were no other changes to existing IFRS accounting standards and interpretations since December 31, 2017 that are expected to have a material effect on the Corporation's financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these unaudited condensed interim financial statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, and amounts in net operating income or loss, and the related disclosure of contingent assets and liabilities included in the Corporation's financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of items in net operating income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the September 2018 Interim Financial Statements from those judgments, estimates and assumptions disclosed in note 4 to the 2017 Audited Financial Statements.

4. EQUITY ACCOUNTED INVESTMENT

The Corporation accounts for its 45% joint venture interest in Innovative Production Services, Ltd. ("IPS") using the equity method. IPS' sole business activity is the ownership and continuing maintenance of a mobile offshore production unit (the "MOPU"), which is currently located in Louisiana, in the United States of America. The MOPU was originally acquired by IPS in expectation of leasing the equipment to affiliated companies to facilitate their producing, processing and transporting of oil and natural gas. IPS has undertaken several initiatives to monetize the asset through lease or sale to third parties. These efforts have not yet been successful and the MOPU is currently inactive.

The following table provides a continuity of the Corporation's investment in IPS during the nine months ended September 30, 2018 and 2017.

		Investment in IPS
Carrying value, December 31, 2016	$	286,830
Transactions for the nine months ended September 30, 2017		
Investment in equity accounted investment		210,071
Share of loss from equity accounted investment		(210,071)
Carrying value, September 30, 2017		286,830
Transactions from October 1, 2017 to December 31, 2017		
Investment in equity accounted investment		47,826
Share of loss from equity accounted investment		(47,826)
Carrying value, December 31, 2017		286,830
Transactions for the nine months ended September 30, 2018		
Investment in equity accounted investment		144,456
Share of loss from equity accounted investment		(144,456)
Carrying value, September 30, 2018	**$**	**286,830**

Other than as already provided for in these September 2018 Interim Financial Statements, the Corporation is not aware of any commitments or liabilities relating to its ownership in IPS.

5. EXPLORATION AND EVALUATION PROPERTIES

The Corporation has entered into a joint operating arrangement with DNO Tunisia AS ("DNO Tunisia"), and with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the joint venturers agreed to undertake exploration, evaluation and extraction activities on the Sfax offshore permit (the "Sfax Permit"), located in Tunisia, and targeting oil and natural gas reserves. On July 30, 2018, Panoro Energy ASA ("Panoro"), an independent exploration and production company based in London, England and listed on the Oslo Stock Exchange, acquired 100% of DNO Tunisia, following which Panoro became the operator of the Sfax Permit. Following completion of the transaction, Panoro assumed responsibility for all drilling and other obligations associated with the Sfax Permit, including any monetary penalties arising due to non-fulfillment of work commitments agreed to under the terms of the Sfax Permit. The Corporation holds a 5.625% working interest in the Sfax Permit, subject to certain cumulative revenue thresholds and priority recovery of expenditures.

In August 2015, the operator received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the Sfax Permit, extending the first renewal period and the associated exploration well drilling obligations to December 8, 2017, and on July 21, 2017, the operator received regulatory approval for an additional extension to December 8, 2018. Following its acquisition of DNO Tunisia, Panoro announced that it had initiated the process to request an extension or renewal of the Sfax Permit beyond the current December 8, 2018 expiry date.

Notwithstanding the above, cash flows from the Corporation's joint operating interest in the Sfax Permit remain uncertain and consequently, the Corporation continues to carry the Sfax Permit at $nil at September 30, 2018.

6. AMOUNTS DUE TO DUNDEE CORPORATION

The Corporation has established a $5,000,000 revolving demand credit facility with Dundee Corporation. Borrowings under the revolving demand credit facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%. As lender to the Corporation, Dundee Corporation may, at its discretion and subject to the necessary regulatory approvals, require the Corporation to convert all of the amounts outstanding pursuant to the revolving demand credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares, defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of $0.05 per common share. At September 30, 2018, the Corporation had drawn $5,495,740 (December 31, 2017 – $5,215,071) against the revolving demand credit facility. Interest expense incurred on the revolving demand credit facility during the three and nine months ended September 30, 2018 was $67,477 and $190,398 respectively (three and nine months ended September 30, 2017 – $54,043 and $151,113 respectively). Although the Corporation has exceeded amounts available pursuant to this demand credit facility, Dundee Corporation has not demanded payment.

7. INCOME TAXES

The Corporation's activities are subject to income taxation in Barbados at a rate of 2.5%. After consideration of estimated future taxable income and potential tax planning strategies, the Corporation has determined that the benefit of loss carry forwards should not be recognized. Accordingly, the Corporation has not recorded an income tax recovery amount or a deferred income tax asset in respect of its operating losses.

8. PREFERENCE SHARES

The Corporation is authorized to issue an unlimited number of preference shares without nominal or par value. The preference shares may be issued in one or more series.

Series A Preference Shares

At September 30, 2018, the Corporation had issued 32,150,000 Series A Preference Shares with a face value of $32,150,000. The Series A Preference Shares are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The terms of the Corporation's Series A Preference Shares are summarized in note 8 to the 2017 Audited Financial Statements.

During the three and nine months ended September 30, 2018, the Corporation recognized an expense of $324,142 and $961,857 respectively (three and nine months ended September 30, 2017 – $324,142 and $961,857 respectively), representing the dividends accrued on the Series A Preference Shares. At September 30, 2018, cumulative dividends outstanding were $13,059,393 (December 31, 2017 – $12,097,536).

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to the redemption of the Series A Preference Shares and its entitlement to demand payment of the associated cumulative dividends outstanding. Accordingly, at September 30, 2018 and December 31, 2017, the Corporation has classified these obligations as current obligations. At September 30, 2018, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

9. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Outstanding, December 31, 2016	31,143,635	$ 1	$ 18,000
Transactions for the nine months ended September 30, 2017			
Cancellation of shares pursuant to sunset clause provision	(38,109)	-	-
Outstanding, September 30, 2018, December 31, 2017 and September 30, 2017	**31,105,526**	**$ 1**	**$ 18,000**

On April 1, 2017, the Corporation cancelled 38,109 common shares pursuant to a sunset clause provision relating to prior corporate restructurings.

10. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Salary and salary-related	$ 13,500	$ 11,983	$ 40,500	$ 29,983
Corporate and professional fees	18,846	19,658	71,941	92,872
General office	284	3,233	1,437	5,095
	$ 32,630	**$ 34,874**	**$ 113,878**	**$ 127,950**

11. NET LOSS PER COMMON SHARE

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net loss from operations attributable to shareholders	$ (462,361)	$ (443,551)	$ (1,428,446)	$ (1,418,648)
Weighted average number of common shares outstanding	31,105,526	31,105,526	31,105,526	31,118,089
Basic and diluted net loss per common share	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.05)

12. RELATED PARTY TRANSACTIONS

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly-owned subsidiary of Dundee Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and nine months ended September 30, 2018, the Corporation incurred costs of $2,584 and $12,790 respectively (three and nine months ended September 30, 2017 – $2,961 and $9,508 respectively), in respect of these arrangements.

Key Management Compensation

Compensation and other fees paid to members of the Board of Directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the three and nine months ended September 30, 2018 were $13,500 and $40,500 respectively (three and nine months ended September 30, 2017 – $13,212 and $56,212 respectively).

13. COMMITMENTS

In prior years, the Corporation and APEX had entered into a farm out option agreement with Delta Hydrocarbons B.V. ("Delta") pertaining to the Sfax Permit and the related Ras El Besh development concession. Delta subsequently expressed a desire to exit from the farm out option agreement and under a settlement arrangement, Delta forfeited its option in exchange for a portion of certain payments, if and when received by the Corporation and APEX, to a maximum of US$20 million. Payment obligations to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil or cost gas portion of any future production revenues realized by the Corporation and APEX from the Sfax Permit.

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