2013 Management's Discussion and Analysis and Financial Statements

EUROGAS INTERNATIONAL INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and natural gas exploration company currently active in properties offshore Tunisia. 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 December 31, 2013, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% 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 January 30, 2014 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, 2013 (the "2013 Audited 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 its exploration and evaluation activities and to realize assets at their carrying values is dependent upon obtaining additional financing, the continued support of its shareholders, the discovery of economically recoverable reserves, obtaining exploitation concessions for identified reserves, and generating revenues sufficient to cover its operating costs. The 2013 Audited 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 other than in the normal course of its business may be significantly different than the carrying value of these assets and liabilities as reflected in the 2013 Audited Financial Statements.

SELECTED FINANCIAL INFORMATION

As at and for the years ended	2013	2012	2011
Net and comprehensive loss	$ (2,073,436)	$ (2,073,071)	$ (2,014,736)
Basic and diluted net loss per common share	(0.07)	(0.07)	(0.06)
Total assets	10,626,625	9,102,677	8,235,560

STRATEGIC BUSINESS DEVELOPMENTS DURING 2013

FARMOUT AGREEMENT WITH DNO TUNISIA AS ("DNO")

In June 2003, Eurogas International entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the Corporation and APEX (jointly, the "Original Contractors") agreed to undertake exploration, appraisal and extraction activities on the Sfax offshore exploration permit (the "Sfax Permit), which currently covers approximately 797,655 acres in the shallow Mediterranean waters in the Gulf of Gabes, offshore Tunisia and southeast of the city of Sfax. The Corporation held a 45% working interest in the arrangement. APEX held the remaining 55% working interest, and was the operator of the project.

In June 2013, the Original Contractors entered into negotiations to complete a farmout agreement with DNO (the "DNO Agreement") with respect to the Sfax Permit and the associated Ras El Besh development concession. DNO is a wholly-owned subsidiary of DNO International ASA, an Oslo-listed company with significant expertise in the oil and gas industry across the Middle East and Africa. The DNO Agreement provides that DNO will acquire an 87.5% working interest in the Sfax Permit in exchange for a US$6 million cash payment to the Original Contractors, and the carrying of 100% of all future costs associated with the Sfax Permit, including the Original Contractors' drilling commitments pursuant to the Sfax Permit. The DNO Agreement was completed in January 2014, and the Corporation received cash of US$2.7 million, representing its proportionate share of the cash paid at closing.

Under the terms of the DNO Agreement, the Original Contractors will be entitled to 12.5% of the profit oil or profit gas component of production from the Sfax Permit, to a maximum of US$125 million (or 12.5% of the profit oil or profit gas from the production of 75 million barrel of oil equivalents, whichever comes first). Thereafter, the Original Contractors are entitled to 6.25% of the profit oil or profit gas component of production from the Sfax Permit to a maximum of an additional US$75 million (or 6.25% of the profit oil or profit gas component from the production of an additional 45 million barrel of oil equivalents, whichever comes first). The Corporation is entitled to 45% of any payments made to the Original Contractors under these arrangements.

The Original Contractors have conceded a temporary deferral of 50% of their entitlement to a share of the profit oil or profit gas component of production from the Sfax Permit, as outlined above, until such time as DNO recovers $150 million of total incurred costs, including costs to be incurred by DNO subsequent to completion of the DNO Agreement, from the cost oil or cost gas component of production on the Sfax Permit.

In addition to their entitlement to a share of the profit oil or profit gas, the DNO Agreement also provides the Original Contractors with entitlement to receive 20% of the cost oil or cost gas component of production from the Sfax Permit, to a maximum of the lesser of 18% of the costs incurred by the Original Contractors prior to completion of the DNO Agreement, or US$20 million.

THE OFFSHORE SFAX EXPLORATION PERMIT

Permits and Licenses

During 2005, the Sfax Permit was converted from a prospecting license to an exploration permit under the terms of an agreement between the Tunisian government, Entreprise Tunisienne d'Activités Pétrolières ("ETAP") (a Tunisian state-owned permit holder), and the Original Contractors, setting out the terms and conditions for the exploration and exploitation of hydrocarbon deposits on the Sfax Permit. The agreement granted authorization to the Original Contractors to explore and produce hydrocarbon deposits on the Sfax Permit and included minimum work obligations, the term of the permit, renewal processes and the royalty and tax structure for any producing fields. The Original Contractors also entered into a production sharing contract (the "PSC") between ETAP and the Original Contractors dated July 20, 2005. Under the terms of the PSC, ETAP entrusted the running and execution of the petroleum operations of the Sfax Permit, and if successful, subsequent concessions, to the Original Contractors and the Original Contractors agreed to finance, at their risk, the petroleum operations, subject to the provisions of the Tunisian Hydrocarbon Code. The PSC addressed, among other things, work programs, budgets, economic discoveries, revenue sharing and reassignment of interests.

The four year exploration permit commenced on December 9, 2005 and included a commitment to undertake seismic work, which was completed, and to drill one exploration well prior to December 9, 2009. The Ras El Besh 3 ("REB3") well, which was drilled during the second half of 2008, was the commitment well for the Sfax Permit and therefore, all commitments on the Sfax Permit were fulfilled.

Extensions and Renewals

On January 15, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension to the term of the Sfax Permit, which extended the initial term to December 8, 2011, and on June 23, 2011, the Tunisian government further extended the period of the Sfax Permit to December 8, 2012. These extensions did not require the relinquishment of any land. However, the Original Contractors committed to drill one additional exploration well during this extension period, with depth to a specified geological zone (the "Initial Well Obligation"). The Original Contractors have not yet completed the Initial Well Obligation.

Permit holders are entitled to submit an application to the Tunisian government to renew a permit for two successive periods, each one covering a maximum duration of three years. Renewals are subject to the fulfillment of past commitments, an additional work commitment and the relinquishment of 20% of the lands within a permit. Permit holders are entitled to a third renewal of the permit not to exceed four years, if hydrocarbons are discovered and permit holders are granted an exploitation concession. This third renewal is subject to the fulfillment of past commitments, an additional work commitment and the relinquishment of lands such that the permit does not exceed 50% of the initial permit area.

In September 2012, the Original Contractors filed an application with the Tunisian Director General of Energy for a renewal of the Sfax Permit as outlined above. As part of its application, the Original Contractors also requested an extension of the term of the Initial Well Obligation to coincide with the term of the renewal period. On November 2, 2012, the Tunisian authorities approved the application and the Original Contractors were awarded a renewal of the Sfax Permit from December 9, 2012 to December 8, 2015 (the "First Renewal Period"). In addition, the Tunisian authorities agreed to the transfer of the Initial Well Obligation to the First Renewal Period. As part of the granting of the First Renewal Period, the Original Contractors relinquished 807 km^2 of land in the southwestern region of the Gulf of Gabes. The Sfax Permit now encompasses approximately 797,655 acres.

Drilling Commitments

In addition to the Initial Well Obligation, which carries an obligation to drill to the Bireno limestones of the Cretaceous age, the approval of the First Renewal Period carries an additional one-well drilling obligation (the "First Renewal Well Obligation"). The First Renewal Well Obligation must be of sufficient depth to enable an appropriate assessment of potential reserves.

In the event that the drilling commitments are not completed prior to the expiry of the First Renewal Period, a compensatory payment of up to US$8 million per well will be payable to the Tunisian government, less any amounts incurred in respect of the completion of these obligations.

Ras El Besh Development Concession

In 2005, the Original Contractors were granted a development concession over the Ras El Besh prospect within the Sfax Permit. Drilling of the REB3 well began on the Ras El Besh structure on June 16, 2008. Upon completion of drilling and testing the REB3 well, the Original Contractors requested and received approval from the Tunisian government on October 23, 2008 to temporarily suspend the well. During the fourth quarter of 2010, the Original Contractors determined that sufficient reserves had not been discovered to give commercial viability to the Ras El Besh prospect and therefore concluded that it was appropriate to abandon the REB3 well and pursue other opportunities within the Sfax Permit.

Final approval to proceed with abandonment and site restoration activities was obtained from the Tunisian authorities in December 2011, following which the Original Contractors finalized procurement contracts, secured the necessary operating equipment and commenced the abandonment process. These abandonment and site restoration activities were substantially completed in the first quarter of 2012.

Farmout with DNO

Under the terms of the DNO Agreement, and with the approval of the Tunisian authorities, DNO has contractually assumed full responsibility for completion of the Initial Well Obligation and the First Renewal Well Obligation, including any compensatory payments that may arise as a result of non-compliance. In that regard, DNO has provided a full guarantee to the Tunisian governmental authorities. DNO has also agreed to fund 100% of all future costs associated with the Sfax Permit and the associated Ras El Besh development concession.

Agreement with Delta Hydrocarbons B.V.

In prior years, the Original Contractors had entered into a farmout option agreement with Delta Hydrocarbons B.V. ("Delta"), pertaining to the farmout of a 50% working interest in the Sfax Permit. Delta subsequently exited from the farmout option agreement and, under a settlement arrangement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the Original Contractors, to a maximum of US$20 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, and a share of the proceeds from any sale or lease of the mobile offshore production platform (see *"Innovative Production Services, Ltd."*)

Investment in the Sfax Permit During 2013

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2011	$	5,875,923
Transactions during the year ended December 31, 2012		
Investment in exploration and evaluation properties		1,549,037
Carrying value, December 31, 2012		7,424,960
Transactions during the year ended December 31, 2013		
Investment in exploration and evaluation properties		1,573,814
Carrying value, December 31, 2013	$	8,998,774

Innovative Production Services, Ltd. ("IPS")

In May 2007, IPS, a company in which the Corporation owns a 45% interest, purchased an oil production mobile offshore production platform (the "MOPU"), which was originally acquired with the expectation of producing, processing and transporting oil on certain development concessions within the Sfax Permit. The Company accounts for its investment in IPS using the equity method of accounting. During the year ended December 31, 2013, the Corporation's share of costs incurred by IPS was $174,404 (2012 – $192,902). Costs incurred relate primarily to the care and maintenance of the MOPU. These costs have been included as *"Share of loss from equity accounted investment"* in the Corporation's statements of operations and comprehensive loss. The Corporation is assessing alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

RESULTS OF OPERATIONS

New Accounting Standards Adopted in 2013

Effective January 1, 2013, the Corporation adopted the requirements of IFRS 11, "*Joint Arrangements*" ("IFRS 11"). IFRS 11 requires a joint venturer to classify its interest in a joint arrangement as either a joint venture or as joint operations. Joint ventures must be accounted for using the equity method of accounting. Joint operations, however, are accounted for using proportionate consolidation whereby the joint venturer recognizes its share of the assets, liabilities, revenues and expenses of joint operations. Under previous IFRS, entities could elect to proportionately consolidate or equity account for interests in joint ventures.

The Corporation has determined that its 45% interest in IPS meets the definition of a joint venture and accordingly, it should be accounted for using the equity method of accounting subsequent to January 1, 2012. Included in Note 3 to the 2013 Audited Financial Statements is a detailed analysis of each financial statement line item affected by the implementation of IFRS 11.

Comparison of the year ended December 31, 2013 with the year ended December 31, 2012

During the year ended December 31, 2013, the Corporation incurred a net loss of $2.1 million (2012 – $2.1 million), or a loss of approximately $0.07 per share (2012 – $0.07 per share). The Corporation's net loss during the year ended December 31, 2013 includes $1.3 million (2012 – $1.3 million) of interest expense associated with dividends payable on the Corporation's Series A Preference Shares outstanding.

Included in the Corporation's net loss during the year ended December 31, 2013 is an increase in the Corporation's decommissioning liability of $29,681 (2012 – $98,363). The increase reflects work completed in the third quarter of 2013 to remove the ocean-floor template previously assembled as part of the Ras El Besh development concession within the Sfax Permit, as required pursuant to the conditions for completion of the DNO Agreement.

General and administrative expenses incurred during the year ended December 31, 2013 were $373,961, representing a 9% decrease from expenses of $412,217 incurred in the prior year. This decrease reflects a reduction in legal fees incurred by the Corporation. In the prior year, the Corporation incurred significant legal costs associated with seeking out a potential farmout partner.

Interest expense was $178,739 during the year ended December 31, 2013, compared with $81,091 incurred during the prior year. Included in interest expense during the year ended December 31, 2013 is $176,907 (2012 – $78,676) associated with the Corporation's credit facility provided by Dundee Corporation (see *"Liquidity and Capital Resources – Cash Resource Availability")*.

Comparison of the three months ended December 31, 2013 with the three months ended December 31, 2012

During the three months ended December 31, 2013, the Corporation incurred a net loss of $0.5 million (2012 – $0.5 million), or a loss of $0.02 per share (2012 – $0.02 per share).

General and administrative expenses incurred during the fourth quarter of 2013 were $62,398, compared with general and administrative expenses of $107,247 incurred during the fourth quarter of the prior year. Consistent with the year-end results, the decrease primarily relates to reduced legal fees. In addition, during the prior year, the Corporation successfully recovered legal costs associated with litigation matters that settled prior to January 1, 2012.

Interest expense during the fourth quarter of 2013 was $53,999, compared to $31,145 incurred during the same period of the prior year. The increase reflects additional borrowings by the Corporation pursuant to the credit facility established with Dundee Corporation.

Summary of Quarterly Results

	2013				2012			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Net loss	$ (486,281)	$ (518,990)	$ (555,388)	$ (512,777)	$ (508,043)	$ (487,014)	$ (503,695)	$ (574,319)
Capital expenditures	345,961	319,411	437,103	471,339	426,370	407,987	461,281	253,399

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At December 31, 2013, the Corporation had cash of $5,137, compared with $7,962 at December 31, 2012. Subsequent to December 31, 2013, the Corporation received US$2.7 million in accordance with the terms of the DNO Agreement.

During 2012, the Corporation 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. During the year ended December 31, 2013, Dundee Corporation agreed to the advance of additional monies subject to final completion of the DNO Agreement. At December 31, 2013, the Corporation had drawn $5.5 million against this facility.

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.

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.

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 December 31, 2013, cumulative dividends outstanding on the Series A Preference Shares were $7.0 million (2012 – $5.7 million), representing outstanding dividends for more than eight quarters. However, at December 31, 2013, Dundee Energy had not exercised its entitlement to elect a majority of the Board of Directors of the Corporation.

Common Shares

As at January 30, 2014, there were 31,143,635 common shares outstanding.

COMMITMENTS

In prior years, the Original Contractors to the Sfax Permit had entered into a farmout option agreement with Delta which was subsequently terminated. The Original Contractors are obligated to make certain payments to Delta if and when proceeds are received by the Original Contractors, to a maximum of US$20 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, and a share of the proceeds from any sale or lease of the MOPU.

RELATED PARTY TRANSACTIONS

The Corporation has not entered into any transactions with related parties, other than as described in Note 14 to the 2013 Audited Financial Statements.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities and with its current and future stages of development. The following outlines some of the Corporation's principal risks and their potential impact on the Corporation. If any of the following risks materialize, the Corporation's business may be adversely affected and the Corporation's financial condition and results of operations may suffer, potentially significantly.

Reliance on Operators, Management and Key Personnel

The Corporation depends on a number of key consultants and the technical skill of other personnel, the loss of any one of whom could have an adverse effect on the Corporation. The Corporation is not the operator in the energy project in which it currently has an interest. Since the Corporation is not the operator, the Corporation is dependent on the operator for the timing of activities related to its projects and will largely be unable to direct or control the activities of the operator. The Corporation's success is also dependent, in part, upon the performance of its joint venture partners, service providers and consultants. Furthermore, competition for qualified personnel in the oil and natural gas industry is intense. Failure to retain or to attract key personnel with the necessary skills and experience could have a materially adverse impact on the Corporation's growth and profitability.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks, which even a combination of experience and knowledge, and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. As at the date hereof, the Corporation does not have any properties that have reserves assigned to them within the definitions contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. There is no assurance that commercial quantities of oil or natural gas will be discovered or acquired or that, if discovered, will be accessible for extraction or commercially viable for production.

Equipment and Related Costs

The Corporation’s activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. In addition, equipment failures may occur which could result in injuries and/or delays in the Corporation’s business activities.

Environmental Concerns

The Corporation’s activities are subject to environmental legislation in the jurisdictions in which it operates. A breach of such legislation may result in the imposition of fines or other penalties. Should the Corporation be unable to fully remedy the cost of an environmental problem, the Corporation or its operators might be required to suspend operations or enter into compliance measures pending completion of the required remedy. In certain circumstances, the Corporation may be required to obtain approval of environmental impact assessments. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of current activities, a material increase in future compliance costs, or otherwise adversely affect the Corporation’s financial condition and results of operations.

Insurance

Oil and natural gas exploration operations are subject to the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property, and the environment, or could result in personal injury. Oil and natural gas production operations are subject to the risks typically associated with such production activities, including premature decline of reservoirs and the invasion of water into producing formations.

In accordance with industry practice, the joint venture partners in the Sfax Permit are not fully insured against all of these risks, nor are all such risks insurable. Although the joint venture partners in the Sfax Permit maintain liability insurance in an amount which they consider adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the joint venture partners, including the Corporation, could incur significant costs that could have a material adverse effect upon its financial condition.

Foreign Operations

The Corporation’s operations are subject to special risks inherent in doing business in other countries, particularly Tunisia where the Corporation’s oil and natural gas exploration and evaluation activities are currently focused. Foreign operation risks include risks arising out of political uncertainty, the policies of foreign governments, imposition of special taxes or similar charges by governmental bodies, foreign exchange fluctuations and controls, access to capital markets, and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may also be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies.

Permits and Licenses

In connection with its operations, the Corporation is required to obtain permits, and in some cases, renewals of permits from the authorities in Tunisia. In addition, the Corporation may also be required to obtain licenses and permits from governmental agencies in other foreign jurisdictions. The ability of the Corporation to obtain, sustain or renew such permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

Further, if permits and licenses or renewals thereof are not issued to the Corporation, or unfavourable restrictions or conditions are imposed on the Corporation's drilling activities, there is a possibility the Corporation will not be able to conduct its business activities as planned. Alternatively, failure by the Corporation to comply with the terms of permits or licenses may result in the suspension or termination of business activities and subject the Corporation to monetary penalties or restrictions. At December 31, 2013, the Corporation's permits in respect of its Tunisian operations were in good standing.

Additional Funding Requirements

The Corporation is currently in the exploration and evaluation stage of its landholdings in Tunisia and, in accordance with accounting requirements, expenditures incurred in these activities are deferred, subject to impairment testing, until such time as the Corporation discovers commercially viable reserves for development and production. The recovery of deferred costs is contingent on the discovery of such commercially viable reserves and future profitable production. The business activities of the Corporation will require substantial amounts of capital in order to execute future exploration and evaluation work.

At December 31, 2013, the Corporation had cash of $5,137 compared with $7,962 at December 31, 2012. Completion of the DNO Agreement in January 2014 added US$2.7 million to cash reserves. In addition, the Corporation has established a $5.0 million revolving demand credit facility with its principal shareholder, Dundee Corporation. During the year ended December 31, 2013, Dundee Corporation agreed to the advance of additional monies pursuant to these lending arrangements, subject to the final completion of the DNO Agreement. At December 31, 2013, $5.5 million had been drawn against this facility. Any additional funding required by the Corporation would have to be accessed through debt or equity financings and/or bank borrowings, or through farmout option arrangements. There can be no assurance that such financings or other arrangements would be available to the Corporation, or that such arrangements would receive the appropriate regulatory or governmental approvals. Raising funds by equity financings would result in dilution, possibly substantial, to present shareholders of the Corporation. Bank borrowings that might be made available to the Corporation are typically determined in part by the borrowing base of the Corporation. The Corporation currently has no revenue sources to provide a borrowing base.

Currency Risk

The Corporation's operations are denominated in several currencies, the most important being the U.S. dollar, while the Corporation's functional and presentation currency is the Canadian dollar. Fluctuations in the rate of exchange may affect the ability of the Corporation to carry out its exploration and evaluation activities. Future costs may be higher than currently envisioned due to unforeseen events such as currency fluctuations. Currency fluctuations will also affect future profits. The Corporation does not currently hedge against foreign currency fluctuations.

No History of Earnings

The Corporation has no history of earnings with respect to its activities and there is no assurance that the Corporation will receive revenues from its activities in the foreseeable future, if at all. The Corporation has not paid dividends on its Series A Preference Shares or on its common shares in the past, and it has no plans to pay dividends on such shares for the foreseeable future.

Litigation Risk

The legal risks facing the Corporation, its directors, trustees, officers and/or employees include potential liability for violations of environmental laws, health and safety laws, securities laws, damage claims for worker exposure to hazardous substances and for accidents causing injury or death. Litigation risk cannot be eliminated, even if there is no legal cause of action. Although the joint venture partners maintain liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that legal liabilities could exceed policy limits, in which event the joint venture partners, including the Corporation, could incur significant costs that could have a material adverse effect on its financial condition.

Competition

The oil and natural gas industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for the acquisition of oil and natural gas properties. The Corporation's competitors include companies that have greater financial resources, staff and facilities than those of the Corporation.

Volatility of Commodity Prices and Alternative Fuel Sources

Oil and natural gas prices fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of the Corporation. Political and economic developments around the world can affect world oil and natural gas supply and prices. Any prolonged period of low oil and natural gas prices could result in a decision by the Corporation to suspend or terminate exploration, as it may become uneconomically feasible to explore for and/or produce oil or natural gas at such prices. Competition may also be presented by alternate fuel sources.

Hedging Activities

If the Corporation's exploration activities result in the discovery of commercial quantities of oil or natural gas, the Corporation may, from time to time, enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation, which could result in a reduction of the revenue received by the Corporation.

Potential Conflicts of Interest

Certain of the directors and officers of the Corporation are also directors or officers of companies that are in the same industry as the Corporation, and may therefore compete with the interests of the Corporation. No assurances can be given that opportunities presented to or identified by such board members and officers will be provided to the Corporation.

Taxation

The Corporation may be subject to taxation in the jurisdictions in which it operates. Any changes in tax legislation and practice in these jurisdictions could adversely affect the Corporation.

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material.

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, revenues and expenses 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 revenues and expenses 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 2013 Audited Financial Statements, including a discussion of proposed changes in accounting standards, interpretations and amendments to existing standards not yet effective which may impact the financial reporting and disclosure of the Corporation in the future. The most critical accounting policies are those that the Corporation believes are the most important in portraying its financial condition and results of operations and those that require the most subjectivity and estimates by management. A summary of critical judgments, estimates and assumptions made by the Corporation are provided in Note 4 to the 2013 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 2013 Audited 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 year ended December 31, 2013, 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, risks associated with foreign operations, risks of not being able to obtain or renew permits and licenses, the impact of general economic conditions, currency fluctuations, exploration and development risks, reliance on key personnel and management, risks relating to the abandonment of operations, environmental risks, 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 resulting benefits the Corporation will derive. 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 Report on Internal Control over Financial Reporting

The financial statements of Eurogas International Inc. (the "Corporation"), the accompanying notes thereto and other financial information contained in the Corporation's management's discussion and analysis are the responsibility of, and have been prepared by management. These financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout the documents accompanying these financial statements and has ensured it is consistent with the financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Corporation, reviews the interim and annual financial statements and management's discussion and analysis of the Corporation and recommends them for approval by the Board of Directors. The Audit Committee reports its findings to the Board of Directors before the financial statements are approved by the Board of Directors.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by the shareholders of the Corporation at the last annual meeting to examine the financial statements and provide an independent professional opinion as to their compliance with International Financial Reporting Standards. The auditor has full and unrestricted access to the Audit Committee to discuss the audit and related matters.

(signed) M. Jaffar Khan
President and Chief Executive Officer

(signed) D. Christopher Hope
Chief Financial Officer

Toronto, Canada
January 30, 2014

Independent Auditor's Report

To the Shareholders of Eurogas International Inc.

We have audited the accompanying financial statements of Eurogas International Inc. (the "Corporation"), which comprise the statements of financial position as at December 31, 2013 and 2012 and the statements of operations and comprehensive loss, the statements of changes in shareholders' deficiency, and the statements of cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eurogas International Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Corporation's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
January 30, 2014

EUROGAS INTERNATIONAL INC.
STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

		As at	
	Note	December 31, 2013	December 31, 2012
ASSETS			
Current			
Cash		$ 5,137	$ 7,962
Accounts receivable		-	30,924
Prepaids		3,938	20,055
		9,075	58,941
Non-current			
Equity accounted investment	5	1,618,776	1,618,776
Exploration and evaluation properties	6	8,998,774	7,424,960
		$ 10,626,625	$ 9,102,677
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 286,313	$ 106,725
Amounts due to Dundee Corporation	7	5,490,073	3,358,117
Decommissioning liability	8	33,418	33,578
Accrued dividends on Series A Preference Shares	10	6,953,536	5,667,536
Series A Preference Shares	10	32,150,000	32,150,000
		44,913,340	41,315,956
SHAREHOLDERS' DEFICIENCY			
Share capital	11	1	1
Contributed surplus	11	18,000	18,000
Deficit		(34,304,716)	(32,231,280)
		(34,286,715)	(32,213,279)
		$ 10,626,625	$ 9,102,677

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

Going Concern Assumption (Note 2)

Commitments (Note 15)

On behalf of the Board,

(signed) Ned Goodman
Director

(signed) M. Jaffar Khan
Director

EUROGAS INTERNATIONAL INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31, 2013 and 2012
(expressed in Canadian dollars, except per share amounts)

	Note		2013		2012
ITEMS IN NET LOSS					
Loss from changes in estimate of decommissioning liability	8	$	(29,681)	$	(98,363)
General and administrative expenses	12		(373,961)		(412,217)
Dividends on Series A Preference Shares	10		(1,286,000)		(1,286,000)
Other interest expense	7		(178,739)		(81,091)
Foreign exchange loss			(30,651)		(2,498)
LOSS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED INVESTMENT			(1,899,032)		(1,880,169)
Share of loss from equity accounted investment	5		(174,404)		(192,902)
NET AND COMPREHENSIVE LOSS FOR THE YEAR		$	(2,073,436)	$	(2,073,071)
NET LOSS PER COMMON SHARE					
Basic and diluted net loss per common share	13	$	(0.07)	$	(0.07)

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the years ended December 31, 2013 and 2012
(expressed in Canadian dollars)

		Share Capital		Contributed Surplus		Deficit		Total
Balance, December 31, 2011	$	1	$	18,000	$	(30,158,209)	$	(30,140,208)
Transactions for the year ended December 31, 2012								
Net loss for the year		-		-		(2,073,071)		(2,073,071)
Balance, December 31, 2012		1		18,000		(32,231,280)		(32,213,279)
Transactions for the year ended December 31, 2013								
Net loss for the year		-		-		(2,073,436)		(2,073,436)
Balance, December 31, 2013	$	1	$	18,000	$	(34,304,716)	$	(34,286,715)

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CASH FLOW

For the years ended December 31, 2013 and 2012
(expressed in Canadian dollars)

	Note	2013	2012
OPERATING ACTIVITIES			
Net loss for the year		$ (2,073,436)	$ (2,073,071)
Non-cash items in net loss:			
Share of loss from equity accounted investment	5	174,404	192,902
Non-cash changes in accrued dividends on Series A Preference Shares	10	1,286,000	1,286,000
Loss from changes in estimate of decommissioning liability	6,8	29,681	98,363
Other		1,036	(3,599)
		(582,315)	(499,405)
Changes in non-cash working capital:			
Accounts receivable		47	8,286
Prepaids		-	21,466
Accounts payable and accrued liabilities		18,763	(20,702)
Reclamation expenditures	8	-	(447,124)
CASH USED IN OPERATING ACTIVITIES		(563,505)	(937,479)
FINANCING ACTIVITIES			
Changes in amounts due to Dundee Corporation		2,131,956	2,588,397
CASH PROVIDED FROM FINANCING ACTIVITIES		2,131,956	2,588,397
INVESTING ACTIVITIES			
Investment in equity accounted investment	5	(174,404)	(192,902)
Investment in exploration and evaluation properties	6	(1,396,872)	(1,549,604)
CASH USED IN INVESTING ACTIVITIES		(1,571,276)	(1,742,506)
NET DECREASE IN CASH DURING THE YEAR		(2,825)	(91,588)
CASH, BEGINNING OF YEAR		7,962	99,550
CASH, END OF YEAR		$ 5,137	$ 7,962

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

1. NATURE OF OPERATIONS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is incorporated under the Companies Act (Barbados), and is an independent oil and gas exploration company currently active in properties offshore Tunisia, 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 December 31, 2013, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% of the issued and outstanding common shares of the Corporation.

2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION

These 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 which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting. These financial statements were approved by the Board of Directors for issue on January 30, 2014.

These 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 December 31, 2013, the Corporation had negative working capital of $44,904,265 (2012 – $41,257,015) and during the year then ended, it had incurred a net loss of $2,073,436 (2012 – $2,073,071). The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for such identified reserves, the ability to raise the necessary capital to finance development, and future profitable production or proceeds from disposition. There can be no assurance that the Corporation will be successful in achieving these initiatives. These material uncertainties 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 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. In such case, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Corporation in the preparation of its financial statements are set out below.

Basis of Measurement
The financial statements have, in all material respects, been prepared under the historical cost convention.

Joint Venture Arrangements
A joint venture is a contractual arrangement pursuant to which the Corporation and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint arrangements are classified as joint ventures or joint operations, reflecting the Corporation's underlying contractual rights and obligations pursuant to the joint arrangement. Joint arrangements that are classified as joint operations are accounted for using the proportionate consolidation method whereby the Corporation recognizes its share of the assets, liabilities, revenues and expenses of the joint operations. Joint arrangements classified as joint ventures are accounted for using the equity method, whereby the Corporation recognizes its share of earnings or losses and other comprehensive income ("OCI") of the joint arrangements in its own earnings or OCI, as applicable.

Foreign Currency

Functional and Presentation Currency
These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

Transactions
Foreign currency transactions are translated into the Corporation's functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Corporation's functional currency at each period-end date, are recognized in the statements of operations and comprehensive loss.

Financial Instruments
The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, amounts due to Dundee Corporation and the Series A Preference Shares and accrued dividends thereon.

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or are assigned and the Corporation has transferred substantially all risks and rewards of ownership in respect of the asset. Financial liabilities are derecognized when the related obligation is discharged, cancelled or expires.

Classification of financial instruments in the Corporation's financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables are comprised of cash and accounts receivable, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amounts expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities, amounts due to Dundee Corporation and the Series A Preference Shares and accrued dividends thereon. Accounts payable and accrued liabilities, amounts due to Dundee Corporation and accrued dividends on the Series A Preference Shares are initially recognized at the amount required to be paid, less, when material, a discount to reduce the liabilities to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. The Corporation's Series A Preference Shares were initially recognized at fair value, net of any transaction costs incurred, and have been subsequently carried at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets at Amortized Cost

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or delinquencies in interest and principal payments. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate for the financial asset. An impairment of a financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

Exploration and Evaluation Properties

The Corporation capitalizes all costs associated with exploration and evaluation activities in Tunisia, except for costs incurred before the Corporation obtained the legal right to explore an area, in which case costs are expensed as incurred.

Exploration and evaluation activities include those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined and may include lease acquisitions, geological and geophysical expenditures, carrying costs of non-productive properties, equipment costs, that portion of general and administrative expenses directly attributable to exploration and evaluation activities and costs associated with decommissioning liabilities. Proceeds received by the Corporation for the disposal of properties or pursuant to the terms of farmout arrangements are normally deducted from the carrying value of exploration and evaluation properties.

The Corporation evaluates the carrying value of its exploration and evaluation properties when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount of an asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). If their carrying value is assessed not to be recoverable, an impairment loss is recognized. The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased in magnitude. If such indication exists, the Corporation updates its estimate of the recoverable amount of the asset. If the recoverable amount of an asset increases because of changes in the estimates used to determine the asset's recoverable amount when impairment was originally recognized, the impairment is reversed and the carrying amount of the asset is increased to its updated recoverable amount. Such reversal is recognized in the statements of operations and comprehensive loss. The reversal of an impairment may not result in the carrying value of an asset exceeding the carrying amount of that asset that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Decommissioning Liability

A decommissioning liability is recognized when the Corporation has a legal or constructive obligation to dismantle and remove a facility or an item of property, plant and equipment on exploration and evaluation properties, and restore the site on which it is located. When a decommissioning liability is recognized, a corresponding amount, equivalent to the amount of the obligation, is recognized as part of the cost of the related property, plant and equipment. A decommissioning liability is only recognized when a reliable estimate of that liability can be made. The Corporation has estimated its decommissioning liability in consultation with the Corporation's joint operating partner, and such estimates are based on current costs and technology.

A decommissioning liability is measured at the present value of the expected expenditures required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A decommissioning liability that is denominated in a foreign currency is translated at current foreign exchange rates at each period end. The effect of any changes to a decommissioning liability as a result of changes in market interest rates and foreign exchange rates is added to or deducted from the cost of the related exploration and evaluation properties. The increase in the decommissioning liability due to the passage of time is recognized as interest expense.

Stock Based Compensation

The Corporation issues stock based compensation awards to directors, employees and consultants. These arrangements may include stock options and other stock based awards such as deferred share units.

The Corporation uses a fair value based method to account for stock based compensation. The fair value of stock based compensation, as at the date of grant, is measured using an option-pricing model and is recognized over the applicable vesting period as compensation expense, based on the number of stock based awards expected to vest, generally with a corresponding increase to reserves in shareholders' equity (deficiency). When stock based compensation arrangements are exercised, the proceeds received, together with any amount in reserves are included in share capital. The number of stock based awards expected to vest is reviewed at least annually, with any impact to underlying stock based compensation expense being recognized immediately.

Income Taxes

The Corporation follows the balance sheet liability method to provide for income taxes on all transactions recorded in the financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered.

Per Share Information

The basic loss per common share is computed by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted per common share amounts, if applicable, are calculated to reflect the dilutive effect of exercising outstanding stock based awards by applying the treasury stock method.

Changes in Accounting Policies Implemented During the Year Ended December 31, 2013

During the year ended December 31, 2013, the Corporation adopted the following new and revised accounting standards, including any consequential amendments thereto. Changes in accounting policies adopted by the Corporation were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

IFRS 7, "Financial Instruments: Disclosure" ("IFRS 7")

Amendments to IFRS 7 require the disclosure of information that enables users of an entity's financial statements to evaluate the effect, or potential effect, of offsetting financial assets and financial liabilities, to the entity's financial position. The Corporation adopted IFRS 7 on January 1, 2013. There were no significant changes to the reporting of financial assets and financial liabilities as a result of the implementation of IFRS 7.

IFRS 11, "Joint Arrangements" ("IFRS 11")

IFRS 11 supersedes IAS 31, *"Interests in Joint Ventures"* and SIC-13, *"Jointly Controlled Entities—Non-monetary Contributions by Venturers"*. IFRS 11 requires the classification of joint arrangements as either joint ventures or joint operations, reflecting the underlying contractual rights and obligations of each investor that jointly controls the arrangement. Joint arrangements that are classified as joint operations are accounted for using the proportionate consolidation method. Joint arrangements classified as joint ventures are accounted for using the equity method as set out in IAS 28, *"Investments in Associates and Joint Ventures" (amended in 2011)*. Under previous IFRS, entities had the choice to proportionately consolidate or equity account for interests in joint ventures.

The Corporation holds a 45% joint interest in Innovative Production Services, Ltd. ("IPS"). The Corporation previously accounted for its investment in IPS using the proportionate consolidation method. The Corporation has determined that its interest in IPS should be classified as a joint venture and accordingly, it should be accounted for using the equity method subsequent to January 1, 2012 in accordance with IFRS 11. The adjustments for each financial statement line item affected by the implementation of IFRS 11 are presented in the tables below.

Adjustments to Statements of Financial Position

	As at December 31, 2013	As at December 31, 2012
Shareholders' deficiency, before implementation of IFRS 11	$ (34,286,715)	$ (32,213,279)
Decrease in property, plant and equipment	(1,618,776)	(1,618,776)
Increase in equity accounted investment	1,618,776	1,618,776
Shareholders' deficiency, after implementation of IFRS 11	$ (34,286,715)	$ (32,213,279)

Adjustments to Statements of Operations and Comprehensive Loss

For the years ended December 31,	2013	2012
Net and comprehensive loss for the year, before implementation of IFRS 11	$ (2,073,436)	$ (2,073,071)
Decrease in general and administrative expenses	174,404	192,902
Increase in share of loss from equity accounted investment	(174,404)	(192,902)
Net and comprehensive loss for the year, after implementation of IFRS 11	$ (2,073,436)	$ (2,073,071)

Adjustments to Statements of Cash Flow

For the years ended December 31,	2013	2012
Net change in cash flow for the year, before implementation of IFRS 11	$ (2,825)	$ (91,588)
Changes in cash used in operating activities	174,404	192,902
Changes in cash used in investing activities	(174,404)	(192,902)
Net change in cash flow for the year, after implementation of IFRS 11	$ (2,825)	$ (91,588)

IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with an entity's interests in other entities. The Corporation adopted IFRS 12 on January 1, 2013. Disclosures related to interests in other entities is included in Note 5 to the financial statements.

IFRS 13, "Fair Value Measurement" ("IFRS 13")
IFRS 13 provides a single framework for measuring fair value as a marked-to-market adjustment within IFRS. The new standard requires that the measurement of the fair value of an asset or liability, as measured for accounting purposes, be based on assumptions that market participants would use when pricing the asset or liability under market conditions existing as at the date of the statement of financial position, including assumptions relating to risk. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange. The Corporation adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

Accounting Standards, Interpretations and Amendments to Existing Standards Not Yet Effective

IAS 36, "Impairment of Assets" ("IAS 36")
On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied prospectively. The Corporation does not expect that the implementation of IAS 36 will have a material effect on the Corporation's financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these 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, revenues and expenses, 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 revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its financial statements.

Recoverability of the Carrying Value of Exploration and Evaluation Properties
The Corporation is required to review the carrying value of its exploration and evaluation properties for potential impairment. Impairment is indicated if the carrying value of the Corporation's exploration and evaluation properties is not recoverable. If impairment is indicated, the amount by which the carrying value of exploration and evaluation properties exceeds their estimated fair value is charged to the statements of operations and comprehensive loss.

Evaluating for recoverability during the exploration and evaluation phase requires judgment in determining whether it is likely that future economic benefits from future exploitation, sale or otherwise are likely. Evaluations may be more complex where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Corporation's financial ability to continue exploration and evaluation activities, contractual issues with its partners in joint operations, the impact of government legislation and political stability in the region in which it operates and the impact of current and expected future oil prices to potential reserves.

Impairment of Financial Assets

The Corporation also reviews the carrying value of its equity accounted investments for impairment. The determination of whether impairment exists is a matter of judgment and management applies much of the same criteria that it applies to the determination of impairment in other financial assets. Impairment is assessed based on current information at the dates of the statements of financial position. However, different assumptions could result in significant changes to the carrying values of equity accounted investments.

Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. Deferred income tax assets are only recognized to the extent that the Corporation believes it is probable that the assets can be recovered. Judgment is required in determining whether deferred income tax assets should be recognized on the statements of financial position. Changes in enacted income tax rates are not within the control of management. However, any such changes in income tax rates may result in actual income tax amounts that may differ significantly from estimates recorded in deferred tax balances. Furthermore, all tax filings are subject to audit and potential reassessment after the lapse of considerable amounts of time.

5. EQUITY ACCOUNTED INVESTMENT

The Corporation accounts for its 45% interest in IPS using the equity method. IPS holds title to a mobile offshore production unit (the "MOPU") located in Louisiana, United States of America, which was acquired by IPS in expectation of producing, processing and transporting oil and natural gas. The following table provides a continuity of the Corporation's investment in IPS during the years ended December 31, 2013 and 2012.

	Investment in IPS
Carrying value, December 31, 2011	$ 1,618,776
Transactions during the year ended December 31, 2012	
Investment in equity accounted investment	192,902
Share of loss from equity accounted investment	(192,902)
Carrying value, December 31, 2012	1,618,776
Transactions during the year ended December 31, 2013	
Investment in equity accounted investment	174,404
Share of loss from equity accounted investment	(174,404)
Carrying value, December 31, 2013	$ 1,618,776

The following table summarizes financial information about IPS's assets, net loss, and net and comprehensive loss as at and for the years ended December 31, 2013 and 2012. As IPS's only asset is the MOPU, it does not report any revenues.

	As at and for the year ended December 31, 2013	As at and for the year ended December 31, 2012
Assets	$ 3,597,280	$ 3,597,280
Net loss	(387,564)	(428,671)
Net and comprehensive loss	(387,564)	(428,671)

The Corporation is not aware of any commitments or contingent liabilities relating to its ownership in IPS.

6. EXPLORATION AND EVALUATION PROPERTIES

The Corporation is engaged in exploration and evaluation activities on the Sfax Offshore Permit (the "Sfax Permit") located offshore Tunisia, targeting oil and natural gas reserves.

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2011	$	5,875,923
Transactions during the year ended December 31, 2012		
Investment in exploration and evaluation properties		1,549,037
Carrying value, December 31, 2012		7,424,960
Transactions during the year ended December 31, 2013		
Investment in exploration and evaluation properties		1,573,814
Carrying value, December 31, 2013	$	8,998,774

Joint Operating Arrangement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX")

At December 31, 2013, the Corporation had entered into a joint operating arrangement with APEX pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction activities on the Sfax Permit. The Corporation had a 45% working interest in the joint operating arrangement and APEX was the operating partner.

On November 2, 2012, the Corporation and its joint operating partner received approval from the Tunisian regulatory authorities for the first renewal of the Sfax Permit to December 8, 2015 (the "First Renewal Period"). As previously established under the terms of the Sfax Permit, the First Renewal Period will carry a one-well drilling obligation. Furthermore, as part of the renewal process, the Tunisian authorities permitted the Corporation to defer a drilling obligation associated with the initial period of the Sfax Permit to the First Renewal Period (Note 15).

During the year ended December 31, 2013, the Corporation invested $1,573,814 (2012 – $1,549,037) on the Sfax Permit, including an allocation of direct general and administrative expenses. Amounts invested in the Sfax Permit relate primarily to geological and geophysical work required for the proper determination of the next drilling prospect.

Farmout Agreement with DNO Tunisia AS

On June 4, 2013, the Corporation, together with its joint operating partner, announced that it had entered into negotiations to complete a farmout agreement with DNO Tunisia AS ("DNO"), a wholly-owned subsidiary of DNO International ASA, with respect to the Sfax Permit (the "DNO Agreement"). The DNO Agreement provides for the acquisition by DNO of an 87.5% working interest in the Sfax Permit in exchange for a US$6 million cash payment and the carrying of 100% of all future costs, including development and production related costs associated with the Sfax Permit.

The DNO Agreement was completed in January 2014, and the Corporation received cash of US$2,700,000. As part of the DNO Agreement, DNO assumed operatorship of the Sfax Permit. The Corporation has retained a 5.625% working interest in the Sfax Permit, subject to certain cumulative revenue thresholds and priority recovery of expenditures by DNO.

7. AMOUNTS DUE TO DUNDEE CORPORATION

During 2012, the Corporation established a $5.0 million 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.

During the year ended December 31, 2013, Dundee Corporation agreed to the advance of additional monies pursuant to these lending arrangements, subject to final completion of the DNO Agreement (Note 6). At December 31, 2013, the Corporation had drawn $5,490,073 (2012 – $3,358,117) against the revolving demand credit facility. Interest expense incurred on the revolving demand credit facility during the year ended December 31, 2013 was $176,907 (2012 – $78,676).

8. DECOMMISSIONING LIABILITY

The carrying amount of the Corporation's decommissioning liability is comprised of the expected future abandonment and site restoration costs associated with the REB-3 well within the Ras El Besh development concession. Abandonment and site restoration costs are based on the Corporation's net working interest in the well, the estimated cost to abandon the well, and the estimated timing of the costs to be incurred in future periods.

		As at and for the year ended December 31, 2013		As at and for the year ended December 31, 2012
Undiscounted future obligations, beginning of year (US dollars)	$	33,750	$	930,696
Adjustments to estimates		28,707		98,875
Liabilities settled on transfer of prepaid amounts		(31,037)		(550,534)
Liabilities settled in cash		-		(445,287)
Undiscounted future obligations, end of year (US dollars)	$	31,420	$	33,750
Foreign exchange rate		1.0636		0.9949
	$	33,418	$	33,578

The following reconciles the Corporation's decommissioning liability on a discounted basis:

		As at and for the year ended December 31, 2013		As at and for the year ended December 31, 2012
Discount rates applied to future obligations		*1.68%*		*1.68%*
Discounted future obligations, beginning of year	$	33,578	$	946,518
Liabilities settled on transfer of prepaid amounts		(32,090)		(559,893)
Liabilities settled in cash		-		(447,124)
Adjustments to estimates		29,681		98,363
Effect of changes in foreign exchange rates		2,249		(4,286)
Discounted future obligations, end of year	$	33,418	$	33,578

During the year ended December 31, 2013, the Corporation completed the removal of the ocean-floor template relating to a previously drilled well within the boundaries of the Sfax Permit. The Corporation's decommissioning liability at December 31, 2013 represents the Corporation's estimate of unpaid costs related to these activities. Included in the Corporation's net and comprehensive loss for the year ended December 31, 2013 is an amount of $29,681, representing an increase in the estimated cost associated with the removal of the ocean-floor template from estimates accrued at December 31, 2012.

9. 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.

At December 31, 2013, the Corporation had operating loss carry forwards of $6,077,197 (2012 – $4,738,082). A summary of the operating loss carry forwards by year of expiry is as follows:

Year of Expiry:		
2014	$	230,578
2015		408,368
2016		299,034
2017		296,612
2018		596,973
Thereafter		4,245,632
	$	6,077,197

10. 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 December 31, 2013, 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 Series A Preference Shares 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 the 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 Dundee Energy or retracted at the option of the Corporation at any time at a price equal to their face value of $1 per Series A Preference Share.

Because of Dundee Energy's entitlement to demand redemption of the Series A Preference Shares at any time, the Corporation has classified the Series A Preference Shares as a financial liability, and the associated dividends as financing costs.

The Series A Preference Shares are non-voting except in the event 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, Dundee Energy shall be entitled, voting exclusively and separately and as a series, to elect a majority of the members of the Board of Directors of the Corporation.

During the year ended December 31, 2013, the Corporation recognized an expense of $1,286,000 (2012 – $1,286,000), representing the dividends accrued on the Series A Preference Shares. At December 31, 2013, cumulative dividends outstanding were $6,953,536 (2012 – $5,667,536).

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 December 31, 2013 and 2012, the Corporation has classified these obligations as current obligations. At December 31, 2013, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

11. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Outstanding, December 31, 2013 and 2012	31,143,635	$ 1	$ 18,000

Common Shares Issued and Outstanding

The Corporation is authorized to issue an unlimited number of common shares. At December 31, 2013 and 2012, the Corporation had 31,143,635 common shares issued and outstanding.

Stock Based Compensation

The Corporation has established certain stock based compensation arrangements, including a share option plan and a deferred share unit plan. The aggregate number of common shares that may be issued from treasury under these arrangements may not exceed 3,114,363 and during any 12-month period, the number of shares issuable to any one person under these arrangements may not exceed 5% of the total number of common shares outstanding. At December 31, 2013, the Corporation had not issued any shares from treasury pursuant to these arrangements.

Share Option Plan

The Corporation has adopted a share option plan pursuant to which directors, officers, employees and consultants may be granted options to purchase common shares of the Corporation. The exercise price of each option shall be established at the grant date by the directors of the Corporation and in all cases shall not be less than the closing price of the common shares on the CSE on the trading day immediately preceding the grant date.

At December 31, 2013, the Corporation had 600,000 outstanding options (2012 – 600,000 options) with a weighted average exercise price of $0.10 per option, of which 600,000 options (2012 – 600,000 options) had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life at December 31, 2013 of 0.45 years. The Corporation did not recognize any stock based compensation expense during the years ended December 31, 2013 and 2012, as the options were fully vested.

Deferred Share Unit Plan (“DSUP”)

The Corporation has established a DSUP to which directors, officers, employees and consultants of the Corporation may be granted deferred share units. The Compensation Committee of the Board of Directors administers the DSUP, which is intended to provide participants with long-term incentive tied to the long-term performance of the Corporation’s common shares. Discretionary awards under the DSUP will be based on certain criteria, including services performed or to be performed. There are currently no units granted to eligible participants under the DSUP.

12. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

For the years ended December 31,		2013		2012
Salary and salary-related	$	190,930	$	190,960
Corporate and professional fees		680,674		637,966
General office		46,982		74,202
Capitalization of general and administrative costs		(544,625)		(490,911)
	$	373,961	$	412,217

13. NET LOSS PER COMMON SHARE

For the years ended December 31,		2013		2012
Net loss from operations attributable to shareholders	$	(2,073,436)	$	(2,073,071)
Weighted average number of common shares outstanding		31,143,635		31,143,635
Basic and diluted net loss per common share	$	(0.07)	$	(0.07)

The Corporation has issued stock options pursuant to stock based compensation arrangements (Note 11). The dilutive effect of options has not been included in the determination of the weighted average number of common shares outstanding, as the inclusion thereof would be anti-dilutive to the net loss per share.

14. 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 year ended December 31, 2013, the Corporation incurred costs of $229,750 (2012 – $307,809), 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 years ended December 31, 2013 and 2012, are shown below.

For the years ended December 31,		2013		2012
Directors' fees and consulting arrangements	$	313,500	$	313,500
Benefits		2,430		2,460
	$	315,930	$	315,960

15. COMMITMENTS

Drilling Obligations

As part of the initial term of the Sfax Permit, the joint operating partners committed to drilling an exploration well, with depth to a specified geological zone (the “Initial Well Obligation”). The Corporation did not meet its obligation during the initial term of the Sfax Permit. However, as part of the granting of the First Renewal Period (Note 6), the Initial Well Obligation was transferred to the First Renewal Period. The First Renewal Period carries an additional one-well drilling obligation (“First Renewal Well Obligation”) which requires drilling to a sufficient depth to enable an appropriate assessment of potential reserves.

In the event that the Corporation's drilling commitments are not completed prior to the expiry of the First Renewal Period, a compensatory payment of up to US$8 million per well will be payable to the Tunisian government by the joint operating partners, less any amounts incurred by the joint operating partners in respect of the completion of these obligations.

As part of the DNO Agreement (Note 6) completed in January 2014, DNO assumed responsibility for these commitments.

Farmout Arrangements with Delta Hydrocarbons B.V. ("Delta")

In prior years, the Corporation and APEX had entered into a farmout option agreement with Delta, pertaining to the farmout of a 50% working interest in the Sfax Permit and the related Ras El Besh development concession. Delta subsequently expressed a desire to exit from the farmout option agreement and under a settlement arrangement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the joint operating partners, 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 portion of any future production revenues realized from the Sfax Permit and the Ras El Besh development concession and a share of the proceeds from any sale or lease of the MOPU.

16. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to Dundee Corporation approximate their fair value. The Corporation has not disclosed the fair value of the Series A Preference Shares outstanding and the accrued dividends thereon, as they cannot be reliably measured, as the obligations are due to a related party.

IFRS 7 requires disclosure of a three-level hierarchy for financial instruments carried at fair value in the Corporation's statements of financial position, based upon transparency of inputs to the valuation methodology used in the determination of fair value. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology include quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At December 31, 2013 and December 31, 2012, there were no financial instruments on the statements of financial position carried at fair value.

Risk Management

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Corporation's overall risk management strategy seeks to minimize potential adverse effects on the Corporation's financial performance.

Market Risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Corporation segregates market risk into three categories: fair value risk, interest rate risk and currency risk.

Fair Value Risk

Fair value risk is the potential for loss from an adverse movement, excluding movements relating to changes in interest rates and foreign exchange currency rates, because of changes in market prices. The Corporation does not have any significant exposure to fair value risk.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk, primarily relating to its revolving demand credit facility with Dundee Corporation (Note 7). An absolute 50 basis point change in market interest rates would result in a change of approximately $20,800 to the net loss incurred by the Corporation during the year ended December 31, 2013 (2012 – $9,300).

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation periodically has accounts receivable and accounts payable denominated in foreign currencies, primarily in Euros and US dollars. The Corporation may also have, from time to time, cash balances that are denominated in foreign currencies to facilitate foreign currency transactions. At December 31, 2013, the Corporation did not have any material foreign-denominated assets or liabilities that would cause significant exposure to currency risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash held with banks and amounts receivable. The Corporation's maximum exposure to credit risk is equal to the carrying value of these financial instruments.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation manages its liquidity risk by forecasting cash flows to be used in operations and anticipating any investing and financing activities. The Corporation's ability to develop its properties and recover their carrying values is dependent on management's ability to raise required capital. The following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2013.

	Carrying Amount	Contractual Term to Maturity
Accounts payable and accrued liabilities	$ 286,313	Typically due within 20 to 90 days
Amounts due to Dundee Corporation	5,490,073	Payable on demand
Decommissioning liability	33,418	Expected settlement – 2014
Accrued dividends on Series A Preference Shares	6,953,536	Payable on declaration by the Board of Directors
Series A Preference Shares	32,150,000	Retractable at the option of the holder or the Corporation
Total	**$ 44,913,340**	

The Corporation has Series A Preference Shares that are redeemable at the Corporation's option and retractable at the option of the holder. In addition, the holder of the Series A Preference Shares is entitled to receive, as and when declared by the Board of Directors, a fixed cumulative cash dividend equal to 4% of the redemption price of the Series A Preference Shares. The terms of the Series A Preference Shares and specifically the right of retraction by the holder thereof, expose the Corporation to significant liquidity risk.

At December 31, 2013, the Corporation had cash of $5,137. This amount is insufficient to meet its current obligations and commitments as they become due (Notes 2 and 15).

Capital Management

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to ensure that it will have sufficient financial capacity to fund its current obligations and pursue exploration and evaluation opportunities as they arise. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint arrangements or farmout agreements, or engage in debt financing. There can be no assurance that the Corporation will be successful in raising sufficient capital to fund ongoing operations.

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