

EUROGAS INTERNATIONAL INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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 a majority of independent directors, 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.

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) Bruce Sherley
Acting Chief Executive Officer

(signed) D. Christopher Hope
Chief Financial Officer

Toronto, Canada
March 5, 2018

Independent Auditor's Report

To the Shareholders of Eurogas International Inc.

We have audited the accompanying financial statements of Eurogas International Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of operations and comprehensive loss, statements of changes in shareholders' deficiency, and 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 (IFRS), 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 audits 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 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, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with IFRS.

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 company's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 5, 2018

**EUROGAS INTERNATIONAL INC.
STATEMENTS OF FINANCIAL POSITION**

(expressed in Canadian dollars)

	Note	As at	
		December 31, 2017	December 31, 2016
ASSETS			
Current			
Cash		\$ 592	\$ 347
		592	347
Non-current			
Equity accounted investment	5	286,830	286,830
		\$ 287,422	\$ 287,177
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 660,703	\$ 370,374
Amounts due to Dundee Corporation	6	5,215,071	4,897,117
Accrued dividends on Series A Preference Shares	8	12,097,536	10,811,536
Series A Preference Shares	8	32,150,000	32,150,000
		50,123,310	48,229,027
SHAREHOLDERS' DEFICIENCY			
Share capital	9	1	1
Contributed surplus	9	18,000	18,000
Deficit		(49,853,889)	(47,959,851)
		(49,835,888)	(47,941,850)
		\$ 287,422	\$ 287,177

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

Going Concern Assumption (Note 2)

Commitments (Note 13)

On behalf of the Board,

(signed) Garth A. C. MacRae
Director

(signed) Mark Rachovides
Director

EUROGAS INTERNATIONAL INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

*For the years ended December 31, 2017 and 2016
(expresses in Canadian dollars, except per share amounts)*

	Note	2017	2016
ITEMS IN NET LOSS			
General and administrative expenses	10	\$ (171,322)	\$ (215,775)
Dividends on Series A Preference Shares	8	(1,286,000)	(1,286,000)
Other interest expense	6	(209,340)	(201,575)
Foreign exchange gain (loss)		30,521	(2,607)
LOSS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED INVESTMENT		(1,636,141)	(1,705,957)
Share of loss from equity accounted investment	5	(257,897)	(226,822)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		\$ (1,894,038)	\$ (1,932,779)
NET LOSS PER COMMON SHARE			
Basic and diluted net loss per common share	11	\$ (0.06)	\$ (0.06)

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, 2017 and 2016
(expressed in Canadian dollars)*

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2015	\$ 1	\$ 18,000	\$ (46,027,072)	\$ (46,009,071)
Transactions during the year ended December 31, 2016				
Net loss for the year	-	-	(1,932,779)	(1,932,779)
Balance, December 31, 2016	1	18,000	(47,959,851)	(47,941,850)
Transactions during the year ended December 31, 2017				
Net loss for the year	-	-	(1,894,038)	(1,894,038)
Balance, December 31, 2017	\$ 1	\$ 18,000	\$ (49,853,889)	\$ (49,835,888)

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

EUROGAS INTERNATIONAL INC. STATEMENTS OF CASH FLOW

*For the years ended December 31, 2017 and 2016
(expressed in Canadian dollars)*

	Note	2017	2016
OPERATING ACTIVITIES			
Net loss for the year		\$ (1,894,038)	\$ (1,932,779)
Non-cash items in net loss:			
Share of loss from equity accounted investment	5	257,897	226,822
Non-cash changes in accrued dividends on Series A Preference Shares	8	1,286,000	1,286,000
		(350,141)	(419,957)
Changes in non-cash working capital:			
Accounts payable and accrued liabilities		290,329	269,730
CASH USED IN OPERATING ACTIVITIES		(59,812)	(150,227)
FINANCING ACTIVITIES			
Changes in amounts due to Dundee Corporation		317,954	342,262
CASH PROVIDED FROM FINANCING ACTIVITIES		317,954	342,262
INVESTING ACTIVITIES			
Investment in equity accounted investment	5	(257,897)	(217,822)
CASH USED IN INVESTING ACTIVITIES		(257,897)	(217,822)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR		245	(25,787)
CASH, BEGINNING OF YEAR		347	26,134
CASH, END OF YEAR		\$ 592	\$ 347

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

EUROGAS INTERNATIONAL INC. NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

(In Canadian dollars, unless otherwise specified)

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, 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, 2017, Dundee Corporation, the principal shareholder of the Corporation, controlled 54% of the issued and outstanding common shares of the Corporation.

The Corporation has entered into a joint operating arrangement with DNO Tunisia AS (“DNO”), a wholly-owned subsidiary of DNO International ASA, and with Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), pursuant to which the joint venturers agreed to undertake exploration, evaluation and extraction activities on the Sfax offshore permit (the “Sfax Permit”), located in Tunisia, targeting oil and natural gas reserves. DNO is currently the operator of the Sfax Permit, and it is responsible for all drilling and other obligations associated with the Sfax Permit, including any monetary penalties arising due to non-fulfillment of work commitments agreed to under the terms of the Sfax Permit. The Corporation holds an effective 5.625% working interest in the Sfax Permit, subject to certain cumulative revenue thresholds and priority recovery of expenditures by DNO.

In August 2015, DNO received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the Sfax Permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017, and on July 21, 2017, DNO received regulatory approval for an additional extension to December 8, 2018. Cash flows from the Corporation’s working interest in the Sfax Permit remain uncertain and consequently, the Corporation carries its investment in the Sfax Permit at \$nil at December 31, 2017 (2016 – \$nil).

The Corporation also holds a 45% joint venture interest in Innovative Production Services, Ltd. (“IPS”), whose sole business activity is the ownership and continuing maintenance of a mobile offshore production unit, which is currently located in Louisiana, United States of America, and certain ancillary equipment.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

These financial statements of the Corporation as at and for the year ended December 31, 2017, with comparative information as at and for the year ended December 31, 2016 (“2017 Audited Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and with interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting. These financial statements were approved by the Board of Directors of the Corporation for issuance on March 5, 2018.

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, 2017, the Corporation had negative working capital of \$50,122,718 (2016 – \$48,228,680) and during the year then ended, it incurred a net loss of \$1,894,038 (2016 – \$1,932,779).

The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for any such economically recoverable reserves, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation, and working capital from future profitable production or proceeds from disposition of assets. There can be no assurance that the Corporation will be successful in achieving these initiatives. These material uncertainties may cast significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern.

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

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. The Corporation has determined that its investment in the Sfax Permit is a joint operation and, accordingly, it accounts for its investment using the proportionate consolidation method.

Joint arrangements classified as joint ventures are accounted for using the equity method, whereby the Corporation recognizes its share of income or loss and other comprehensive income or loss of the joint arrangement in its own operations or comprehensive income or loss, as applicable. The Corporation has determined that its investment in IPS meets the definition of a joint venture arrangement and consequently, it is accounting for its interest in IPS using the equity method.

The Corporation assesses, at each reporting date, whether there is objective evidence that its interest in a joint venture arrangement is impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of the joint venture arrangement is written down to its estimated recoverable amount, with any difference charged to the statement of operations and comprehensive income or loss.

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. Generally, 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 statement of operations and comprehensive income or loss.

Financial Instruments

The Corporation's financial instruments consist of cash, accounts payable and accrued liabilities, amounts due to Dundee Corporation and the Corporation's 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 or cancelled, or when such obligation 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. At December 31, 2017 and 2016, the Corporation's financial assets classified as loans and receivables are comprised solely of cash. 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 as may be required.

Financial Liabilities at Amortized Cost

The Corporation's financial instruments classified as financial liabilities at amortized cost include accounts payable and accrued liabilities, amounts due to Dundee Corporation and the Corporation's Series A Preference Shares and accrued dividends thereon. Financial instruments designated as financial liabilities at amortized cost 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 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset, other than a financial asset that is carried in the Corporation's financial statements at fair value, 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 impacted the estimated future cash flows of the financial asset in an amount 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.

Impairment of Non-financial Assets

The Corporation has historically capitalized costs associated with exploration and evaluation activities, except for costs incurred before the Corporation obtained the legal right to explore an area, in which case costs were expensed as incurred. Capitalized costs included expenditures for an area or project for which technical feasibility and commercial viability had not yet been determined and may have included 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.

The Corporation evaluates the carrying value of its exploration and evaluation properties and other non-financial assets 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 cost of disposal 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 statement of operations and comprehensive income or 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.

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 recognized 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 the statement of operations and comprehensive income or loss 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

Basic income or loss per common share is computed by dividing the net income or 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, 2017

IAS 7, "Statement of Cash Flows" ("IAS 7")

On January 1, 2017, the Corporation implemented certain amendments to IAS 7, which require that entities provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. The implementation of amendments to IAS 7 had no impact to the Corporation's 2017 Audited Financial Statements.

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

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

In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets, and new requirements related to hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The categorization approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. New hedge accounting requirements incorporated into IFRS 9 increase the scope of items that may qualify as a hedged item and changes the requirements of hedge effectiveness testing that must be met in order to apply hedge accounting. The requirements of IFRS 9 are effective for annual periods beginning on or after January 1, 2018. The Corporation has completed an analysis of the requirements of IFRS 9 in order to determine the effect that IFRS 9 may have on its future financial reporting, and it has determined that the implementation of IFRS 9 will not impact the Corporation's financial statements.

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

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation does not currently have any outstanding share-based awards and, accordingly, the implementation of IFRS 2 will not have any immediate effect on the Corporation's financial reporting.

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, and amounts in net operating income or loss, and the related disclosure of contingent assets and liabilities included in the Corporation's financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of items in net operating income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its financial statements.

Impairment of Joint Ventures Accounted for using the Equity Method

The Corporation assesses, at each reporting date, whether there is objective evidence that a joint venture accounted for using the equity method is impaired. A joint venture accounted for using the equity method is impaired if there is objective evidence of impairment as a result of one or more events that have occurred that may impact the estimated future cash flows expected from the joint venture. Objective evidence that a joint venture accounted for using the equity method is impaired may include: a change in the financial health or outlook for the business of the joint venture or its underlying assets; indication that the joint venture is in default of obligations or will enter bankruptcy; or a restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise. The assessment of impairment of a joint venture accounted for on an equity basis requires significant judgment, where management evaluates, among other factors, the duration and extent to which the recoverable value of underlying assets of the joint venture is less than its carrying value, the impact of capital market activities on the business of the joint venture, and the financial health of the joint venture. Different assumptions could result in significant changes to the carrying value of a joint venture accounted for using the equity method, and the associated amounts of equity earnings or losses from such investments.

Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires the 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 statement of financial position.

Impairment of Non-Financial Assets, including 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 recoverable amount is charged to the statement of operations and comprehensive income or 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.

5. EQUITY ACCOUNTED INVESTMENT

The Corporation accounts for its 45% joint venture interest in IPS using the equity method. IPS' sole business activity is the ownership and continuing maintenance of a mobile offshore production unit (the "MOPU"), which was originally acquired by IPS in expectation of leasing the equipment to affiliated companies to facilitate their producing, processing and transporting of oil and natural gas.

IPS has undertaken several initiatives to monetize the asset through lease or sale to third parties. Because of the significant volatility in the market price of oil and the associated curbing of exploration and production activities in the oil and natural gas sector, these efforts have not been successful.

The MOPU is currently inactive, and the Corporation has determined that its value has deteriorated. Accordingly, IPS has reduced the carrying value of the MOPU to its estimated recoverable amount of \$637,400 at the end of December 2017 and 2016, after recognizing an associated impairment loss of \$20,000 during the year ended December 31, 2016. The Corporation's proportionate share in the impairment loss during the year ended December 31, 2016 was \$9,000, and it was included in the amounts designated as "*Share of loss from equity accounted investment*" in the Corporation's statement of operations and comprehensive loss.

The recoverable amount of the MOPU was determined to be its fair value less cost of disposal, and was assessed by reference to the current market for scrap metal, taking into account the costs to break down and cut the MOPU into salvageable components, as well as associated delivery costs to the recycling point. In determining the recoverable amount of the MOPU, IPS used a valuation methodology that included significant unobservable inputs, and therefore it has classified the measurement of the asset at Level 3 of the fair value hierarchy.

The following table summarizes financial information about IPS' assets and its net and comprehensive loss as at and for the years ended December 31, 2017 and 2016. As IPS' only asset is the MOPU, it does not report any revenues.

As at and for the years ended December 31,	2017	2016
Assets	\$ 637,400	\$ 637,400
Net and comprehensive loss	(573,104)	(504,049)

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

The following table provides a continuity of the Corporation's investment in IPS during the years ended December 31, 2017 and 2016.

	Investment in IPS
Carrying value, December 31, 2015	\$ 295,830
Transactions during the year ended December 31, 2016	
Investment in equity accounted investment	217,822
Share of loss from equity accounted investment	(217,822)
Impairment	(9,000)
Carrying value, December 31, 2016	286,830
Transactions during the year ended December 31, 2017	
Investment in equity accounted investment	257,897
Share of loss from equity accounted investment	(257,897)
Carrying value, December 31, 2017	\$ 286,830

6. AMOUNTS DUE TO DUNDEE CORPORATION

The Corporation has established a \$5,000,000 revolving demand credit facility with Dundee Corporation. Borrowings under the revolving demand credit facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%. As lender to the Corporation, Dundee Corporation may, at its discretion and subject to the necessary regulatory approvals, require the Corporation to convert all of the amounts outstanding pursuant to the revolving demand credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares, defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of \$0.05 per common share. At December 31, 2017, the Corporation had drawn \$5,215,071 (2016 – \$4,897,117) against the revolving demand credit facility. Interest expense incurred on the revolving demand credit facility during 2017 was \$208,706 (2016 – \$200,717). Although the Corporation has exceeded amounts available pursuant to this demand credit facility, Dundee Corporation has not demanded payment.

7. INCOME TAXES

The Corporation's activities are subject to income taxation in Barbados at a rate of 2.5%. After consideration of estimated future taxable income and potential tax planning strategies, the Corporation has determined that the benefit of income tax 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, 2017, the Corporation had operating loss carry forwards of \$7,654,055 (2016 – \$8,183,668). A summary of the operating loss carry forwards by year of expiry is as follows:

Year of Expiry:		
2018	\$	684,511
2019		641,333
2020		1,049,405
2021		2,175,608
2022		997,634
Thereafter		2,105,564
	\$	7,654,055

8. PREFERENCE SHARES

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

Series A Preference Shares

At December 31, 2017, 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 retracted at the option of Dundee Energy or redeemed 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 retraction 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, 2017, the Corporation recognized an expense of \$1,286,000 (2016 – \$1,286,000), representing the dividends accrued on the Series A Preference Shares. At December 31, 2017, cumulative dividends outstanding were \$12,097,536 (2016 – \$10,811,536).

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, 2017 and 2016, the Corporation has classified these obligations as current obligations. At December 31, 2017, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

9. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Outstanding, December 31, 2016	31,143,635	\$ 1	\$ 18,000
Transactions during the year ended December 31, 2017			
Cancellation of shares pursuant to sunset clause provision	(38,109)	-	-
Outstanding, December 31, 2017	31,105,526	\$ 1	\$ 18,000

Common Shares Issued and Outstanding

The Corporation is authorized to issue an unlimited number of common shares. On April 1, 2017, the Corporation cancelled 38,109 common shares pursuant to a sunset clause provision relating to prior corporate restructurings. The Corporation had 31,105,526 common shares issued and outstanding at December 31, 2017.

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, 2017, 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, 2017 and 2016, there were no options outstanding.

Deferred Share Unit Plan ("DSUP")

The Corporation has established a DSUP pursuant 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.

10. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

For the years ended December 31,	2017	2016
Salary and salary-related	\$ 43,483	\$ 37,213
Corporate and professional fees	119,734	169,351
General office	8,105	9,211
	\$ 171,322	\$ 215,775

11. NET LOSS PER COMMON SHARE

For the years ended December 31,	2017	2016
Net loss from operations attributable to shareholders	\$ (1,894,038)	\$ (1,932,779)
Weighted average number of common shares outstanding	31,114,923	31,143,635
Basic and diluted net loss per common share	\$ (0.06)	\$ (0.06)

12. RELATED PARTY TRANSACTIONS

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly-owned subsidiary of Dundee Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the year ended December 31, 2017, the Corporation incurred costs of \$13,278 (2016 – \$37,729), 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, 2017 and 2016 are shown below.

For the years ended December 31,	2017	2016
Directors' fees and consulting arrangements	\$ 69,706	\$ 86,000
Benefits	-	1,213
	\$ 69,706	\$ 87,213

13. COMMITMENTS

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

14. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying value of cash, 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.

At December 31, 2017 and 2016, there were no other financial instruments on the statements of financial position of the Corporation 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 6). An absolute 50 basis point change in market interest rates would result in a change of approximately \$25,693 to the net loss incurred by the Corporation during the year ended December 31, 2017 (2016 – \$24,128).

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 payable denominated in foreign currencies, primarily in 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, 2017, the Corporation had nominal US dollar denominated cash balances. A 3% change in the foreign exchange translation rate of Canadian to US dollars would result in a change to the Corporation's net loss of approximately \$14,472 (2016 – \$8,352).

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. 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 following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2017.

	Carrying Amount	Contractual Term to Maturity
Accounts payable and accrued liabilities	\$ 660,703	Typically due within 20 to 90 days
Amounts due to Dundee Corporation	5,215,071	Payable on demand
Accrued dividends on Series A Preference Shares	12,097,536	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	\$ 50,123,310	

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, 2017, the Corporation had cash of \$592. This amount is insufficient to meet its current obligations and commitments as they become due (Notes 2 and 13).

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 farm out agreements, or it may engage in debt financing. There can be no assurance that the Corporation will be successful in raising sufficient capital to fund ongoing operations.