

# **EUROGAS INTERNATIONAL INC.**

## **CONDENSED INTERIM FINANCIAL STATEMENTS**

**(Unaudited)**

**FOR THE THREE MONTHS ENDED MARCH 31, 2012**

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

*(expressed in Canadian Dollars)*

	Note	As at	
		March 31, 2012	December 31, 2011
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 3,357	\$ 99,550
Accounts receivable		31,055	39,897
Prepays	7	2,625	601,414
		37,037	740,861
<b>Non-current</b>			
Property, plant and equipment	4	1,618,776	1,618,776
Exploration and evaluation properties	5	6,129,322	5,875,923
		\$ 7,785,135	\$ 8,235,560
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 112,177	\$ 127,994
Amounts due to Dundee Corporation	6	1,502,486	769,720
Decommissioning liability	7	33,720	946,518
Accrued dividends on Series A Preference Shares	9	4,701,279	4,381,536
Series A Preference Shares	9	32,150,000	32,150,000
		38,499,662	38,375,768
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	10	1	1
Contributed surplus	10	18,000	18,000
Deficit		(30,732,528)	(30,158,209)
		(30,714,527)	(30,140,208)
		\$ 7,785,135	\$ 8,235,560

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

**Nature of Operations and Going Concern Assumption (Note 1)**

**Commitments (Note 14)**

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

*(expressed in Canadian Dollars, except per share amounts)*

	Note	For the three months ended	
		March 31, 2012	March 31, 2011
<b>ITEMS IN NET LOSS</b>			
Exploration and evaluation expenditures		\$ (40,919)	\$ (85,688)
(Loss) gain from changes in estimate of decommissioning liability	7	(98,363)	32,930
General and administrative expenses	11	(111,858)	(245,781)
Dividends on Series A Preference Shares	9	(319,743)	(317,095)
Interest and other income		-	21
Other interest expense		(8,189)	(6,896)
Foreign exchange gain (loss)		4,753	(54,270)
<b>NET AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>\$ (574,319)</b>	<b>\$ (676,779)</b>
<b>NET LOSS PER COMMON SHARE</b>			
Basic and diluted net loss per common share	12	\$ (0.02)	\$ (0.02)

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

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

*(expressed in Canadian Dollars)*

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2010	\$ 1	\$ 15,287	\$ (28,143,473)	\$ (28,128,185)
Transactions for the three months ended March 31, 2011				
Stock based compensation	-	1,479	-	1,479
Net loss for the period	-	-	(676,779)	(676,779)
Balance, March 31, 2011	1	16,766	(28,820,252)	(28,803,485)
Transactions from April 1, 2011 to December 31, 2011				
Stock based compensation	-	1,234	-	1,234
Net loss for the period	-	-	(1,337,957)	(1,337,957)
Balance, December 31, 2011	1	18,000	(30,158,209)	(30,140,208)
Transactions for the three months ended March 31, 2012				
Net loss for the period	-	-	(574,319)	(574,319)
Balance, March 31, 2012	\$ 1	\$ 18,000	\$ (30,732,528)	\$ (30,714,527)

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

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

*(expressed in Canadian Dollars)*

	Note	For the three months ended	
		March 31, 2012	March 31, 2011
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		\$ (574,319)	\$ (676,779)
Non-cash items in net loss			
Non-cash changes in accrued dividends on Series A Preference Shares	9	319,743	317,095
Loss (gain) from changes in estimates of decommissioning liability	7	98,363	(32,930)
Stock based compensation	10	-	1,479
Other		(3,588)	31,913
		(159,801)	(359,222)
Changes in non-cash working capital:			
Accounts receivable		8,286	-
Prepays		38,896	(7,826)
Accounts payable and accrued liabilities		(15,250)	(60,521)
Reclamation expenditures	7	(447,124)	-
<b>CASH USED IN OPERATING ACTIVITIES</b>		<b>(574,993)</b>	<b>(427,569)</b>
<b>FINANCING ACTIVITIES</b>			
Changes in amounts due to Dundee Corporation	6	732,766	83,403
<b>CASH PROVIDED FROM FINANCING ACTIVITIES</b>		<b>732,766</b>	<b>83,403</b>
<b>INVESTING ACTIVITIES</b>			
Net proceeds from short term investments		-	60,755
Investment in property, plant and equipment	4	-	(29,522)
Proceeds from settlement of Seawolf litigation	5	-	445,605
Investment in exploration and evaluation properties	5	(253,966)	(387,286)
<b>CASH (USED IN) PROVIDED FROM INVESTING ACTIVITIES</b>		<b>(253,966)</b>	<b>89,552</b>
<b>NET DECREASE IN CASH DURING THE PERIOD</b>		<b>(96,193)</b>	<b>(254,614)</b>
<b>CASH, BEGINNING OF PERIOD</b>		<b>99,550</b>	<b>1,055,193</b>
<b>CASH, END OF PERIOD</b>		<b>\$ 3,357</b>	<b>\$ 800,579</b>

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

**EUROGAS INTERNATIONAL INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(unaudited)**

For the three months ended March 31, 2012 and 2011  
*(In Canadian dollars, unless otherwise specified)*

**1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION**

Eurogas International Inc. (“Eurogas International” or the “Corporation”) is incorporated under the Companies Act (Barbados), and is an independent oil and gas company engaged in the exploration and evaluation of its landholdings offshore Tunisia, targeting large-scale 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 National Stock Exchange under the symbol “EI”. At March 31, 2012, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% of the issued and outstanding common shares of the Corporation.

These unaudited condensed interim financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at March 31, 2012, the Corporation had negative working capital of \$38,462,625 (December 31, 2011 – negative working capital of \$37,634,907) and, during the three months then ended, it had incurred a net loss of \$574,319 (three months ended March 31, 2011 – net loss of \$676,779). In addition, the Corporation has declared a condition of Force Majeure with respect to certain exploration and evaluation properties (Note 5). These material uncertainties cast significant doubt upon the Corporation’s ability to continue as a going concern and, as a result, upon the appropriateness of using accounting principles applicable to a going concern.

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 unaudited condensed interim financial statements do not include any adjustments to the amounts and classifications 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 unaudited condensed interim financial statements. These differences could be material.

**2. BASIS OF PRESENTATION**

These unaudited condensed interim financial statements of the Corporation as at and for the three months ended March 31, 2012 (“March 2012 Interim Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), applicable to the preparation of interim financial statements, including International Accounting Standard 34, “*Interim Financial Reporting*”. The March 2012 Interim Financial Statements were authorized for issuance by the Board of Directors on April 30, 2012.

The March 2012 Interim Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the Corporation's audited financial statements as at and for the year ended December 31, 2011 ("2011 Audited Financial Statements"). The March 2012 Interim Financial Statements do not include all disclosures required by IFRS for annual financial statements and accordingly, should be read in conjunction with the 2011 Audited Financial Statements.

The preparation of the March 2012 Interim Financial Statements requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, revenues and other items in earnings, and the related disclosure of contingent assets and liabilities, if any. 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 amount of revenues and other items in earnings that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the March 2012 Interim Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2011 Audited Financial Statements.

### 3. ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS NOT YET EFFECTIVE

Accounting standards, interpretations and amendments to existing standards that are not yet effective are outlined in Note 3 to the 2011 Audited Financial Statements. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements.

### 4. PROPERTY, PLANT AND EQUIPMENT

The Corporation holds a 45% joint interest in a mobile offshore production unit (the "MOPU"), which was acquired with the expectation of producing, processing and transporting oil and natural gas. Non-operating costs associated with the MOPU have been included in these financial statements as property, plant and equipment. The Corporation may consider alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

	Investment in MOPU
Carrying value, December 31, 2010	\$ 1,406,286
Transactions during the three months ended March 31, 2011	
Investment	29,522
Carrying value, March 31, 2011	1,435,808
Transactions from April 1, 2011 to December 31, 2011	
Investment	182,968
Carrying value, December 31, 2011 and March 31, 2012	\$ 1,618,776

## 5. EXPLORATION AND EVALUATION PROPERTIES

	Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2010	\$ 4,665,001
Transactions during the three months ended March 31, 2011	
Investments	328,220
Carrying value, March 31, 2011	4,993,221
Transactions from April 1, 2011 to December 31, 2011	
Investments	882,702
Carrying value, December 31, 2011	5,875,923
Transactions during the three months ended March 31, 2012	
Investments	253,399
Carrying value, March 31, 2012	\$ 6,129,322

The Corporation has entered into a joint venture arrangement with Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction activities on the 1.0 million acre Sfax Offshore Permit (the “Sfax Permit”) located offshore Tunisia. The Sfax Permit encompasses several prospects and leads, including the Salloum and Jawhara prospects, as well as a development concession granted over the Ras El Besh prospect. The Corporation owns a 45% working interest in the joint venture arrangement and APEX is the operating partner. On June 23, 2011, the Tunisian government extended the term of the Sfax Permit to December 8, 2012. As a condition of the extension, the joint venture partners committed to drill an exploration well on the Sfax Permit during the extension period (Note 14).

### ***Declaration of Force Majeure***

As a result of political uncertainty and civil unrest in Tunisia, on January 18, 2011, the Corporation announced that, together with APEX, it had declared a condition of Force Majeure with respect to the Sfax Permit and Ras El Besh development concession. The Corporation believes that the declaration of Force Majeure allowed the Corporation and APEX to suspend their activities, while the conditions resulting in the Force Majeure continued.

### ***Farmout Arrangements with Delta Hydrocarbons B.V.***

In prior years, the Corporation and APEX had entered into a farmout option agreement with Delta Hydrocarbons B.V. (“Delta”), pertaining to the farmout of a 50% working interest in the joint venture arrangement relating to the Sfax Permit and the 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 venture partners, 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 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.

### ***Litigation against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited***

During the first quarter of the prior year, the Corporation received US\$450,000 (Cdn\$445,605) in proceeds from the settlement of litigation which the joint venture partners had initiated against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited. The Corporation sought damages for misrepresentations and breach of a drilling contract in respect of the REB-3 well drilled on the Ras El Besh development concession.



## 6. AMOUNTS DUE TO DUNDEE CORPORATION

On January 31, 2012, the Corporation established a \$2.5 million revolving demand credit facility with Dundee Corporation. 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 1 Chartered Bank, plus 1.25%. At March 31, 2012, the Corporation had drawn \$1,502,486 against the facility. Interest expense incurred during the three months ended March 31, 2012 in respect of the facility was \$7,309.

Amounts due to Dundee Corporation prior to the establishment of the revolving demand credit facility were due on demand, were unsecured and were non-interest bearing.

## 7. DECOMMISSIONING LIABILITY

	As at and for the three months ended March 31, 2012		As at and for the year ended December 31, 2011	
Undiscounted future obligations, beginning of period (US dollars)	\$	930,696	\$	1,462,500
Adjustments to estimates		98,875		(135,890)
Liabilities settled on transfer of prepaid amounts		(550,534)		-
Liabilities settled in cash		(445,287)		(395,914)
Undiscounted future obligations, end of period (US dollars)	\$	33,750	\$	930,696
Foreign exchange rate		0.9991		1.0170
	\$	33,720	\$	946,518

	As at and for the three months ended March 31, 2012		As at and for the year ended December 31, 2011	
<i>Discount rates applied to future obligations</i>		<i>1.68%</i>		<i>1.68%</i>
Discounted future obligations, beginning of period	\$	946,518	\$	1,430,568
Liabilities settled on transfer of prepaid amounts		(559,893)		-
Liabilities settled in cash		(447,124)		(402,645)
Adjustments to estimates		98,363		(138,200)
Effect of changes in foreign exchange rates		(4,144)		32,742
Accretion		-		24,053
Discounted future obligations, end of period	\$	33,720	\$	946,518

During the three months ended March 31 2012, the joint venture partners substantially completed the abandonment and site restoration of the REB-3 well within the Ras El Besh development concession. As a condition of the settlement arrangements with Delta (Note 5), Delta funded 50% of the costs of abandonment and site restoration.

## 8. 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.

## 9. 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 March 31, 2012, the Corporation had issued 32,150,000 Series A Preference Shares with a face value of \$32,150,000. The Series A Preference Shares are held by Dundee Energy Limited (“Dundee Energy”), a subsidiary of Dundee Corporation. The terms of the Corporation’s Series A Preference Shares are summarized in Note 11 to the 2011 Audited Financial Statements.

During the three months ended March 31, 2012, the Corporation recognized an expense of \$319,743 (three months ended March 31, 2011 - \$317,095), representing the dividends accrued on the Series A Preference Shares. At March 31, 2012, cumulative dividends outstanding were \$4,701,279 (December 31, 2011 - \$4,381,536).

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 March 31, 2012, the Corporation has classified these obligations as current obligations. Furthermore, at March 31, 2012, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

## 10. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Outstanding, December 31, 2010	31,143,635	\$ 1	\$ 15,287
Transactions during the three months ended March 31, 2011			
Stock based compensation	-	-	1,479
Outstanding, March 31, 2011	31,143,635	1	16,766
Transactions from April 1, 2011 to December 31, 2011			
Stock based compensation	-	-	1,234
Outstanding, December 31, 2011 and March 31, 2012	31,143,635	\$ 1	\$ 18,000

### Stock Based Compensation

A detailed description of the Corporation’s stock based compensation arrangements is provided in Note 12 to the 2011 Audited Financial Statements.

#### Share Option Plan

At March 31, 2012, the Corporation had 600,000 outstanding options (December 31, 2011 – 600,000 options) with a weighted average exercise price of \$0.10 per option, of which 600,000 options (December 31, 2011 – 600,000 options) had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life at March 31, 2012 of 2.21 years.

The Corporation did not recognize any stock based compensation during the three months ended March 31, 2012, as the outstanding options were fully vested at December 31, 2011. During the first quarter of the prior year, the Corporation recognized stock based compensation expense of \$1,479.

#### Deferred Share Unit Plan

There are currently no units granted to eligible participants under the Corporation’s deferred share unit plan.

## 11. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

	For the three months ended	
	March 31, 2012	March 31, 2011
Salary and salary-related	\$ 49,277	\$ 52,322
Stock based compensation	-	1,479
Corporate and professional fees	162,323	293,357
General office	25,104	35,203
Expense recoveries	-	(7,385)
Capitalization of general and administrative costs	(124,846)	(129,195)
	\$ 111,858	\$ 245,781

## 12. NET LOSS PER SHARE

	For the three months ended	
	March 31, 2012	March 31, 2011
Net loss from operations attributable to shareholders	\$ (574,319)	\$ (676,779)
Weighted average number of common shares outstanding	31,143,635	31,143,635
Basic and diluted net loss per common share	\$ (0.02)	\$ (0.02)

The Corporation has issued stock options pursuant to stock based compensation arrangements. 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.

## 13. RELATED PARTY TRANSACTIONS

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three months ended March 31, 2012, the Corporation incurred costs of \$75,282 (three months ended March 31, 2011 - \$73,699), in respect of these arrangements.

### *Key Management Compensation*

Compensation and other fees paid to members of the Board of Directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the three months ended March 31, 2012 and 2011 is shown below:

	For the three months ended	
	March 31, 2012	March 31, 2011
Directors' fees and consulting arrangements	\$ 79,875	\$ 82,875
Stock based compensation	-	1,479
Benefits	652	697
	\$ 80,527	\$ 85,051

#### **14. COMMITMENTS**

As part of the Tunisian government's approval of the extensions on the Sfax Permit to December 8, 2012, the joint venture partners are committed to drilling an exploration well, with depth to a specified geological zone, during the extension period. The actual cost for an exploration well will depend on the selection of the prospect and location within the Sfax Permit. Based on current information, the Corporation estimates that its share of the costs to meet this commitment ranges between US\$6 million and US\$9 million.

In the event that such work commitment is not completed, a compensatory payment of up to US\$12 million will be payable to the Tunisian government by the joint venture partners, less any amounts previously incurred by the joint venture partners in respect of the completion of its obligation.