EUROGAS INTERNATIONAL INC.

2014 FIRST QUARTER REPORT

EUROGAS INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and natural gas exploration company targeting oil and natural gas reserves. Eurogas International is incorporated under the *Companies Act* (Barbados), and its common shares trade on the Canadian Securities Exchange ("CSE") under the symbol EI. At March 31, 2014, 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 April 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") and the unaudited condensed interim financial statements of the Corporation as at and for the three months ended March 31, 2014 (the "March 2014 Interim Financial Statements") prepared under International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars, unless otherwise specified.

GOING CONCERN ASSUMPTIONS

The Corporation's ability to continue as a going concern is dependent upon obtaining exploitation concessions and the discovery of economically recoverable reserves; and, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation. The 2013 Audited Financial Statements and the March 2014 Interim Financial Statements do not give effect to any adjustments which would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The amounts the Corporation may realize on the disposition of its assets or the discharging of its liabilities 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 and the March 2014 Interim Financial Statements.

BUSINESS DEVELOPMENTS

The Offshore Sfax Exploration Permit

Eurogas International entered into a joint operating arrangement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), effective June 12, 2003, pursuant to which the Corporation and APEX (jointly, the "Original Contractors") agreed to undertake exploration, appraisal and extraction operations in the working interests awarded to them pursuant to the Sfax offshore exploration permit (the "Sfax Permit"), located offshore Tunisia, and covering approximately 800,000 acres in the shallow Mediterranean waters in the Gulf of Gabes, southeast of the city of Sfax. The Corporation held a 45% working interest in the joint operating arrangement, with APEX holding the remaining 55% working interest. APEX was initially assigned as operator under the joint operating arrangement.

First Renewal Period

In November 2012, the Tunisian authorities approved an application made by the Original Contractors to renew the initial term of the Sfax Permit from December 9, 2012 to December 8, 2015 (the "First Renewal Period"). As part of the renewal, the Tunisian authorities agreed to the transfer of the Original Contractors' obligation to drill one exploration well, with a depth to a specified geological zone (the "Initial Well Obligation") to the First Renewal Period. In addition to the Initial Well Obligation, the First Renewal Period carries an additional one-well drilling obligation (the "First Renewal Well Obligation"), requiring sufficient depth to enable an approximate assessment of potential reserves.

Farmout Agreement with DNO Tunisia AS ("DNO")

In January 2014, the Corporation completed a farmout agreement with DNO (the "DNO Agreement") with respect to the Sfax Permit and the associated Ras El Besh development concession. The DNO Agreement provides for DNO acquiring an 87.5% working interest in the Sfax Permit in exchange for an upfront, non-refundable cash payment of US$6 million to the Original Contractors, and the carrying of 100% of all future costs associated with the Sfax Permit. During the three months ended March 31, 2014, the Corporation received cash of US$2.7 million (Cdn$2.9 million), representing its proportionate share of the cash paid at closing. Amounts received by the Corporation in respect of the farmout agreement were deducted from the carrying value of the Corporation's exploration and evaluation properties.

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.

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.

Investment in the Sfax Permit During 2014

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2012	$	7,424,960
Transactions during the three months ended March 31, 2013		
Investment in exploration and evaluation properties		471,339
Carrying value, March 31, 2013		7,896,299
Transactions from April 1, 2013 to December 31, 2013		
Investment in exploration and evaluation properties		1,102,475
Carrying value, December 31, 2013		8,998,774
Transactions during the three months ended March 31, 2014		
Investment in exploration and evaluation properties		54,317
Proceeds received as consideration for farmout arrangement of Sfax Permit		(2,871,720)
Carrying value, March 31, 2014	$	6,181,371

Since December 31, 2013, and prior to completion of the farmout agreement, the Corporation invested $54,317 (three months ended March 31, 2013 – $471,339) in the Sfax Permit.

Agreement with Delta Hydrocarbons B.V. ("Delta")
In prior years, the Original Contractors had entered into a farmout option agreement with 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 agreement, 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 the sale or lease of the mobile offshore production platform owned by Innovative Production Services, Ltd. (*see below*).

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 Corporation accounts for its investment in IPS using the equity method of accounting. During the three months ended March 31, 2014, the Corporation's share of costs incurred by IPS was $46,216 (2013 – $49,369). Costs incurred relate primarily to the care and maintenance of the MOPU. The Corporation continues to assess alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2014 with the three months ended March 31, 2013
During the three months ended March 31, 2014, the Corporation incurred a net loss of $0.6 million, or a loss of approximately $0.02 per share. This compares to a net loss of $0.5 million or a loss of approximately $0.02 per share incurred by the Corporation during the same period of 2013. The Corporation's net loss during the three months ended March 31, 2014 includes $0.3 million of interest expense associated with dividends payable on the Corporation's Series A Preference Shares outstanding (three months ended March 31, 2013 – $0.3 million).

General and administrative expenses incurred during the three months ended March 31, 2014 were $226,584. This compares with general and administrative expenses of $104,841 incurred during the same period of the prior year. Prior to completion of the DNO Agreement, certain general and administrative expenses that were directly related to the Corporation's ongoing exploration activities were capitalized to the cost of the Sfax Permit. Following completion of the DNO Agreement, all costs incurred by the Corporation in respect of the Sfax Permit have been expensed and charged as general and administrative expenses, as amounts will no longer be eligible as qualified capital expenditures pursuant to the production sharing contract governing the Sfax Permit.

Interest expense was $47,002 during the three months ended March 31, 2014, compared with $36,555 incurred during the same period of the prior year. Included in interest expense during the three months ended March 31, 2014 is $46,693 (three months ended March 31, 2013 – $36,210) associated with the Corporation's $5.0 million credit facility provided by Dundee Corporation (see *"Liquidity and Capital Resources – Cash Resource Availability")*.

Summary of Quarterly Results

	2014	2013				2012		
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Net loss	$ (599,113)	$ (486,281)	$ (518,990)	$ (555,388)	$ (512,777)	$ (508,043)	$ (487,014)	$ (503,695)
Capital expenditures	54,317	345,961	319,411	437,103	471,339	426,370	407,987	461,281

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At March 31, 2014, the Corporation had cash of $952,977, compared with $5,137 at December 31, 2013. The Corporation's current cash resources are insufficient to meet its current obligations, including its obligations pursuant to the terms of the Series A Preference Shares and associated dividends as outlined below. The Corporation is considering its future business strategies and assessing the possibility of alternative financing options, including possible debt or equity issuances or the monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these alternatives.

The Corporation has established a $5.0 million revolving demand credit facility with Dundee Corporation to provide the necessary operating funds to meet certain ongoing general and administrative expenses. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%, and are due on demand. At March 31, 2014, the Corporation had drawn $4.0 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.

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 March 31, 2014, cumulative dividends outstanding on the Series A Preference Shares were $7.3 million (December 31, 2013 – $7.0 million), representing outstanding dividends for more than eight quarters. However, at March 31, 2014, Dundee Energy had not exercised its entitlement to elect a majority of the Board of Directors of the Corporation.

Common Shares

As at April 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

Other than as described in Note 13 to the March 2014 Interim Financial Statements, there have been no significant changes in the nature and scope of related party transactions to those described in Note 14 to the 2013 Audited Financial Statements and the accompanying MD&A.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities and with its current and future stages of development. These risks were detailed in the section entitled "*Business Risks*" in the Corporation's MD&A accompanying its 2013 Audited Financial Statements. The Corporation has not identified any material changes to the risk factors affecting its business and its approach to managing those risks from those discussed in the document referred to above.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and other items in net earnings, 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 amount of revenues and other items in net earnings that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Other than as outlined in Note 2 to the March 2014 Interim Financial Statements, there have been no other material changes to the accounting policies applied in the preparation of the Corporation's March 2014 Interim Financial Statements from those detailed in Note 3 to the Corporation's 2013 Audited Financial Statements. A summary of critical judgments, estimates and assumptions made by the Corporation are provided in Note 4 to the 2013 Audited Financial Statements. There have been no significant changes in these judgments and estimates during the three months ended March 31, 2014.

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 March 2014 Interim Financial Statements and in the accompanying MD&A.

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

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

In addition, the Chief Executive Officer and Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in compliance with IFRS. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were any changes to the Corporation's control over financial reporting during the three months ended March 31, 2014, 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*.

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

(expressed in Canadian dollars)

	Note	As at March 31, 2014	As at December 31, 2013
ASSETS			
Current			
Cash		$ 952,977	$ 5,137
Prepaids		2,625	3,938
		955,602	9,075
Non-current			
Equity accounted investment	4	1,618,776	1,618,776
Exploration and evaluation properties	5	6,181,371	8,998,774
		$ 8,755,749	$ 10,626,625
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 249,787	$ 286,313
Amounts due to Dundee Corporation	6	3,971,158	5,490,073
Decommissioning liability	7	-	33,418
Accrued dividends on Series A Preference Shares	9	7,270,632	6,953,536
Series A Preference Shares	9	32,150,000	32,150,000
		43,641,577	44,913,340
SHAREHOLDERS' DEFICIENCY			
Share capital	10	1	1
Contributed surplus	10	18,000	18,000
Deficit		(34,903,829)	(34,304,716)
		(34,885,828)	(34,286,715)
		$ 8,755,749	$ 10,626,625

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

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, 2014	March 31, 2013
ITEMS IN NET LOSS			
General and administrative expenses	11	$ (226,584)	$ (104,841)
Dividends on Series A Preference Shares	9	(317,096)	(317,096)
Other interest expense	6	(47,002)	(36,555)
Foreign exchange gain (loss)		37,785	(4,916)
LOSS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED INVESTMENT		(552,897)	(463,408)
Share of loss from equity accounted investment	4	(46,216)	(49,369)
NET AND COMPREHENSIVE LOSS FOR THE PERIOD		$ (599,113)	$ (512,777)
NET LOSS PER COMMON SHARE			
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, 2012	$ 1	$ 18,000	$ (32,231,280)	$ (32,213,279)
Transactions for the three months ended March 31, 2013				
Net loss for the period	-	-	(512,777)	(512,777)
Balance, March 31, 2013	1	18,000	(32,744,057)	(32,726,056)
Transactions from April 1, 2013 to December 31, 2013				
Net loss for the period	-	-	(1,560,659)	(1,560,659)
Balance, December 31, 2013	1	18,000	(34,304,716)	(34,286,715)
Transactions for the three months ended March 31, 2014				
Net loss for the period	-	-	(599,113)	(599,113)
Balance, March 31, 2014	$ 1	$ 18,000	$ (34,903,829)	$ (34,885,828)

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, 2014	March 31, 2013
OPERATING ACTIVITIES			
Net loss for the period		$ (599,113)	$ (512,777)
Non-cash items in net loss:			
Share of loss from equity accounted investment	4	46,216	49,369
Non-cash changes in accrued dividends on Series A Preference Shares	9	317,096	317,096
Other		1,518	55
		(234,283)	(146,257)
Changes in non-cash working capital:			
Prepaids		1,313	17,430
Accounts payable and accrued liabilities		100,440	192,457
Reclamation expenditures	7	(34,936)	-
CASH (USED IN) PROVIDED FROM OPERATING ACTIVITIES		(167,466)	63,630
FINANCING ACTIVITIES			
Changes in amounts due to Dundee Corporation		(1,518,915)	340,716
CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(1,518,915)	340,716
INVESTING ACTIVITIES			
Investment in equity accounted investment	4	(46,216)	(49,369)
Proceeds received as consideration for farmout arrangement of Sfax Permit	5	2,871,720	-
Investment in exploration and evaluation properties	5	(191,283)	(292,878)
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		2,634,221	(342,247)
NET INCREASE IN CASH DURING THE PERIOD		947,840	62,099
CASH, BEGINNING OF PERIOD		5,137	7,962
CASH, END OF PERIOD		$ 952,977	$ 70,061

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, 2014 and 2013

(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 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 March 31, 2014, 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, 2014, the Corporation had negative working capital of $42,685,975 (December 31, 2013 – negative working capital of $44,904,265) and, during the three months then ended, it had incurred a net loss of $599,113 (three months ended March 31, 2013 – net loss of $512,777). The Corporation's ability to continue as a going concern is dependent upon obtaining exploitation concessions and discovery of economically recoverable reserves; and, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation. 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 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, 2014 ("March 2014 Interim Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting, as applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "*Interim Financial Reporting*". The March 2014 Interim Financial Statements should be read in conjunction with the Corporation's audited financial statements as at and for the year ended December 31, 2013 ("2013 Audited Financial Statements") which were prepared in accordance with IFRS as applicable for annual financial statements. The March 2014 Interim Financial Statements were authorized for issuance by the Board of Directors on April 30, 2014.

The March 2014 Interim Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the 2013 Audited Financial Statements, except as described below.

Changes in Accounting Policies Implemented During the Three Months Ended March 31, 2014

The Corporation has adopted the following new and revised accounting standards, including any consequential amendments thereto, effective January 1, 2014. Changes in accounting policies adopted by the Corporation were made in accordance with the applicable transitional provisions as provided in those standards and amendments.

IAS 32, "Financial Instruments: Presentation" ("IAS 32")

On January 1, 2014, the Corporation implemented certain amendments to IAS 32 which require the Corporation to provide clarification on the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The implementation of amendments to IAS 32 had no impact to the Corporation's March 2014 Interim Financial Statements.

IAS 36, "Impairment of Assets" ("IAS 36")

On January 1, 2014, the Corporation implemented certain amendments to IAS 36 which require that the Corporation disclose, if appropriate, the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal or value-in-use of the asset, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The implementation of amendments to IAS 36 had no impact to the Corporation's March 2014 Interim Financial Statements.

IFRIC 21, "Levies" ("IFRIC 21")

On January 1, 2014, the Corporation implemented IFRIC 21 which provides an interpretation on IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37"), with respect to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligating event is the activity described in the relevant legislation that triggers the payment of the levy. The implementation of IFRIC 21 had no impact to the Corporation's March 2014 Interim Financial Statements.

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

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

In November 2009, the IASB issued IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 will be issued in three phases. The first phase, which has already been issued, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address 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 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. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Requirements for financial liabilities were added to IFRS 9 in October 2010. Although the classification criteria for financial liabilities will not change under IFRS 9, the fair value option may require different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

In December 2013, new hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting. The effective date for IFRS 9 has been deferred by the IASB. The Corporation does not expect that the implementation of IFRS 9 will have a material effect on the Corporation's financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the March 2014 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 net earnings (loss), 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 net earnings (loss) that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the March 2014 Interim Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2013 Audited Financial Statements.

4. EQUITY ACCOUNTED INVESTMENT

The Corporation accounts for its 45% interest in Innovative Production Services, Ltd. ("IPS") using the equity method. IPS holds title to a mobile offshore production unit (the "MOPU") currently 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 three months ended March 31, 2014 and 2013.

		Investment in IPS
Carrying value, December 31, 2012	$	1,618,776
Transactions during the three months ended March 31, 2013		
Investment in equity accounted investment		49,369
Share of loss from equity accounted investment		(49,369)
Carrying value, March 31, 2013		1,618,776
Transactions from April 1, 2013 to December 31, 2013		
Investment in equity accounted investment		125,035
Share of loss from equity accounted investment		(125,035)
Carrying value, December 31, 2013		1,618,776
Transactions during the three months ended March 31, 2014		
Investment in equity accounted investment		46,216
Share of loss from equity accounted investment		(46,216)
Carrying value, March 31, 2014	$	1,618,776

5. EXPLORATION AND EVALUATION PROPERTIES

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2012	$	7,424,960
Transactions during the three months ended March 31, 2013		
Investment in exploration and evaluation properties		471,339
Carrying value, March 31, 2013		7,896,299
Transactions from April 1, 2013 to December 31, 2013		
Investment in exploration and evaluation properties		1,102,475
Carrying value, December 31, 2013		8,998,774
Transactions during the three months ended March 31, 2014		
Investment in exploration and evaluation properties		54,317
Proceeds received as consideration for farmout arrangement of Sfax Permit		(2,871,720)
Carrying value, March 31, 2014	$	6,181,371

At December 31, 2013, the Corporation had entered into a joint operating 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 Sfax offshore permit, located offshore Tunisia (the "Sfax Permit"), targeting oil and natural gas reserves. The Corporation held a 45% working interest in the joint operating arrangement, while APEX held the remaining 55% working interest and was the operating partner.

In January 2014, the Corporation and APEX entered into a farmout agreement with DNO Tunisia AS ("DNO"), a wholly owned subsidiary of DNO International ASA. Pursuant to the farmout agreement, DNO acquired an 87.5% working interest in the Sfax Permit in exchange for an upfront cash payment of US$6,000,000 and the subsequent carrying of 100% of all future costs, including development and production related costs associated with the Sfax Permit. DNO also assumed all drilling and other obligations associated with the Sfax Permit.

During the three months ended March 31, 2014, the Corporation received $2,871,720 (US$2,700,000), representing its 45% interest in the upfront cash payment made by DNO to secure its interest in the farmout agreement. Amounts received by the Corporation in respect of the farmout agreement were deducted from the carrying value of the Corporation's exploration and evaluation properties. 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. As part of the farmout agreement, DNO assumed operatorship of the Sfax Permit.

Since December 31, 2013, and prior to completion of the farmout agreement, the Corporation invested $54,317 (three months ended March 31, 2013 – $471,339) in the Sfax Permit. Following completion of the farmout agreement, all costs incurred by the Corporation in respect of the Sfax Permit have been expensed and charged to net earnings (loss), as amounts will no longer be eligible as qualified capital expenditures pursuant to the production sharing contract governing the Sfax Permit.

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 March 31, 2014, the Corporation had drawn $3,971,158 (December 31, 2013 – $5,490,073) against the revolving demand credit facility. Interest expense incurred on the revolving demand credit facility during the three months ended March 31, 2014 was $46,693 (three months ended March 31, 2013 – $36,210).

7. DECOMMISSIONING LIABILITY

		As at and for the three months ended March 31, 2014		As at and for the year ended December 31, 2013
Undiscounted future obligations, beginning of period (US dollars)	$	31,420	$	33,750
Adjustments to estimates		-		28,707
Liabilities settled on transfer of prepaid amounts		-		(31,037)
Liabilities settled in cash		(31,420)		-
Undiscounted future obligations, end of period (US dollars)	$	-	$	31,420
Foreign exchange rate		1.1053		1.0636
	$	-	$	33,418

		As at and for the three months ended March 31, 2014		As at and for the year ended December 31, 2013
Discount rates applied to future obligations		*1.68%*		*1.68%*
Discounted future obligations, beginning of period	$	33,418	$	33,578
Liabilities settled on transfer of prepaid amounts		-		(32,090)
Liabilities settled in cash		(34,936)		-
Adjustments to estimates		-		29,681
Effect of changes in foreign exchange rates		1,518		2,249
Discounted future obligations, end of period	$	-	$	33,418

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, 2014, 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 10 to the 2013 Audited Financial Statements.

During the three months ended March 31, 2014, the Corporation recognized an expense of $317,096 (three months ended March 31, 2013 – $317,096), representing the dividends accrued on the Series A Preference Shares. At March 31, 2014, cumulative dividends outstanding were $7,270,632 (December 31, 2013 – $6,953,536).

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, 2014 and December 31, 2013, the Corporation has classified these obligations as current obligations. At March 31, 2014, 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, March 31, 2014 and December 31, 2013	31,143,635	$ 1	$ 18,000

Stock Based Compensation

A detailed description of the Corporation's stock based compensation arrangements is provided in Note 11 to the 2013 Audited Financial Statements.

Share Option Plan

At March 31, 2014, the Corporation had 600,000 outstanding options (December 31, 2013 – 600,000 options) with a weighted average exercise price of $0.10 per option, of which 600,000 options (December 31, 2013 – 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, 2014 of 0.21 years. The Corporation did not recognize any stock based compensation expense during the three months ended March 31, 2014 and 2013, as the options were fully vested.

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, 2014	March 31, 2013
Salary and salary-related	$ 37,226	$ 47,825
Corporate and professional fees	158,642	181,431
General office	30,716	15,000
Capitalization of general and administrative costs	-	(139,415)
	$ 226,584	$ 104,841

12. NET LOSS PER COMMON SHARE

	For the three months ended	
	March 31, 2014	March 31, 2013
Net loss from operations attributable to shareholders	$ (599,113)	$ (512,777)
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 (Note 10). 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, 2014, the Corporation incurred costs of $55,327 (three months ended March 31, 2013 – $53,898), 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, 2014 and 2013 are shown below.

		For the three months ended		
		March 31, 2014		March 31, 2013
Directors' fees and consulting arrangements	$	67,776	$	78,375
Benefits		700		700
	$	68,476	$	79,075

14. COMMITMENTS

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 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 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 portion of any future production revenues realized by the Corporation and APEX 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.

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