EUROGAS INTERNATIONAL INC.

INTERIM FINANCIAL STATEMENTS

(Unaudited)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

EUROGAS INTERNATIONAL INC.
STATEMENTS OF FINANCIAL POSITION
(unaudited)

(In Canadian Dollars)

	Note	As at June 30, 2011	As at December 31, 2010
ASSETS			
Current			
Cash and cash equivalents		$ 690,033	$ 1,055,193
Short term investments	6	-	60,755
Accounts receivable	8	589,724	1,537,403
Prepaids		130,458	46,509
		1,410,215	2,699,860
Property, plant and equipment	7	1,500,302	1,406,286
Exploration and evaluation properties	8	5,357,990	4,665,001
		$ 8,268,507	$ 8,771,147
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 315,144	$ 223,228
Decommissioning liability	9	1,398,638	1,430,568
Accrued dividends on Series A Preference Shares	11	3,733,251	-
Series A Preference Shares	11	32,150,000	-
		37,597,033	1,653,796
Accrued dividends on Series A Preference Shares	11	-	3,095,536
Series A Preference Shares	11	-	32,150,000
		37,597,033	36,899,332
SHAREHOLDERS' DEFICIENCY			
Share capital	12	1	1
Contributed surplus	12	18,263	15,287
Deficit		(29,346,790)	(28,143,473)
		(29,328,526)	(28,128,185)
		$ 8,268,507	$ 8,771,147

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

Nature of Operations and Going Concern Assumption (Note 1)

Commitments (Note 16)

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

(In Canadian Dollars)

	Note	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
INCOME					
Interest and other		$ -	$ 1,457	$ 21	$ 4,401
		-	1,457	21	4,401
EXPENSES					
General and administrative	13	128,087	366,986	373,868	980,194
Impairment of exploration and evaluation expenditures	8	54,331	193,475	107,089	388,896
Dividends on Series A Preference Shares	11	320,620	320,620	637,715	637,715
Interest expense		6,810	6,710	13,706	12,993
Foreign exchange loss (gain)		16,690	(9,120)	70,960	(993)
		526,538	878,671	1,203,338	2,018,805
NET AND COMPREHENSIVE LOSS FOR THE PERIOD		$ (526,538)	$ (877,214)	$ (1,203,317)	$ (2,014,404)
NET LOSS PER COMMON SHARE					
Basic and diluted net loss per common share	14	$ (0.02)	$ (0.03)	$ (0.04)	$ (0.06)

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

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

(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, January 1, 2010	$ 1	$ 9,287	$ (28,143,297)	$ (28,134,009)
Transactions for the six months ended June 30, 2010				
Stock based compensation	-	2,976	-	2,976
Net loss for the period	-	-	(2,014,404)	(2,014,404)
Balance, June 30, 2010	1	12,263	(30,157,701)	(30,145,437)
Transactions from July 1, 2010 to December 31, 2010				
Stock based compensation	-	3,024	-	3,024
Net earnings for the period	-	-	2,014,228	2,014,228
Balance, December 31, 2010	1	15,287	(28,143,473)	(28,128,185)
Transactions for the six months ended June 30, 2011				
Stock based compensation	-	2,976	-	2,976
Net loss for the period	-	-	(1,203,317)	(1,203,317)
Balance, June 30, 2011	$ 1	$ 18,263	$ (29,346,790)	$ (29,328,526)

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CASH FLOW
(unaudited)

(In Canadian Dollars)

	For the six months ended	
	June 30, 2011	June 30, 2010
OPERATING ACTIVITIES		
Loss from operations	$ (1,203,317)	$ (2,014,404)
Non-cash items in operations		
Non-cash changes in accrued dividends on Series A Preference Shares	637,715	637,715
Impairment of exploration and evaluation expenditures	107,089	388,896
Stock based compensation	2,976	2,976
Other	11,903	11,130
	(443,634)	(973,687)
Changes in non-cash working capital:		
Accounts receivable	947,679	(72,631)
Prepaids	(83,949)	22,182
Accounts payable and accrued liabilities	91,916	(167,035)
	512,012	(1,191,171)
FINANCING ACTIVITIES		
Changes in amounts due to Dundee Energy Limited	-	389,776
	-	389,776
INVESTING ACTIVITIES		
Net proceeds from short term investments	60,755	2,680,584
Investment in property, plant and equipment	(94,016)	(761,866)
Investment in exploration and evaluation properties	(843,911)	(1,269,771)
	(877,172)	648,947
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(365,160)	(152,448)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,055,193	185,901
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 690,033	$ 33,453

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

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

As at and for the three and six months ended June 30, 2011 and 2010

(In Canadian Dollars)

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's 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".

These interim financial statements have been prepared on a going concern basis, which presumes 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 ordinary course of business.

As at June 30, 2011, the Corporation had negative working capital of $36,186,818 (December 31, 2010 – working capital of $1,046,064) and, during the six months then ended, it had incurred a net loss of $1,203,317 (six months ended June 30, 2010 – net loss of $2,014,404). As a result of a material deficit in available working capital, significant doubt exists over the Corporation's ability to meet its current commitments (Note 16) and continue as a going concern.

In addition, the Corporation has declared a condition of Force Majeure with respect to certain exploration and evaluation properties (Note 8).

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 interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. As a result, 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 the financial statements. Such adjustments could be material.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These interim financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, *"Interim Financial Reporting"* ("IAS 34") and IFRS 1, *"First-time Adoption of IFRS"* ("IFRS 1"), which the Corporation adopted on January 1, 2010 (the "Transition Date"). Prior to the Transition Date, the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Note 5 discloses the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flow, including the nature and effect of significant changes in accounting policies from those used in the Corporation's financial statements for the year ended December 31, 2010.

These condensed interim financial statements of the Corporation do not include all disclosures required by IFRS for annual financial statements. Accordingly, these condensed interim financial statements of the Corporation should be read in conjunction with the Corporation's annual financial statements as at and for the year ended December 31, 2010 prepared in accordance with Canadian GAAP ("2010 Audited Financial Statements") and the Corporation's interim financial statements as at and for the three months ended March 31, 2011 ("March 2011 Interim Financial Statements").

The accounting policies applied in these interim financial statements are based on IFRS effective for the year ending December 31, 2011, as issued and outstanding as at July 21, 2011, the date the Board of Directors authorized the issuance of these interim financial statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the Corporation's March 2011 Interim Financial Statements. Subject to certain elections made on transition to IFRS as disclosed in Note 5, these accounting policies have been consistently applied throughout all periods presented in these interim financial statements, as if these policies had always been in effect.

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

IFRS 9, "Financial Instruments" ("IFRS 9")
The IASB intends to replace IAS 39, *"Financial Instruments: Recognition and Measurements"* ("IAS 39"), with IFRS 9, *"Financial Instruments"* ("IFRS 9"). IFRS 9 will be published in three phases. The first phase, which has already been published, 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 rules 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.

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with varying transitional arrangements dependent on the date of initial application.

IFRS 10, "Consolidation" ("IFRS 10")
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *"Consolidation—Special Purpose Entities"* and parts of IAS 27, *"Consolidated and Separate Financial Statements"*. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

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

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *"Interests in Joint Ventures"*, and SIC-13, *"Jointly Controlled Entities—Non-monetary Contributions by Venturers"*. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

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

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 13, "Fair Value Measurement" ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Amendments to Other Standards

In addition to the issuance of new standards as detailed above, there have also been amendments to existing standards, including IAS 1, "*Presentation of Financial Statements*" ("IAS 1"), IAS 19, "*Employee Benefits*" ("IAS 19"), IAS 27, *"Consolidated and Separate Financial Statements"* ("IAS 27") and IAS 28, *"Investments in Associates and Joint Venture"* ("IAS 28").

The amendments to IAS 1 will require that entities group items presented in other comprehensive income ("OCI") based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.

Amendments to IAS 19 eliminate an entity's option to defer the recognition of certain gains and losses related to post-employment benefits and require remeasurement of associated assets and liabilities in OCI. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13 as outlined above. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these interim financial statements in accordance with IFRS requires the Corporation to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. 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 judgements about the carrying value of assets and liabilities and the reported amount of revenues and expenses 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 to the areas of accounting judgements, estimates and assumptions made by the Corporation from those detailed in Note 4 to the March 2011 Interim Financial Statements.

5. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2010, the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") was revised to incorporate International Financial Reporting Standards ("IFRS"), and required publicly accountable enterprises to apply such standards for financial years beginning on or after January 1, 2011.

The accounting policies adopted by the Corporation have been applied in preparing the interim financial statements for the three and six month periods ended June 30, 2011, the comparative information presented in these financial statements for the three and six month periods ended June 30, 2010, and as at December 31, 2010.

The effect of the Corporation's transition from Canadian GAAP to IFRS is set out in the following reconciliations and the footnotes that accompany such reconciliations.

IFRS 1: First-time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

Transition Elections upon Adoption

The Corporation has applied the following transitional exemption to full retrospective application of IFRS:

- *Oil and gas properties* – IFRS 1 permits a first-time adopter using the full cost method of accounting under its previous GAAP to elect to measure oil and gas assets at the date of transition to IFRS on the following basis: (a) exploration and evaluation properties at the amount determined under previous GAAP and (b) assets in the development or production phases at the amount determined under previous GAAP, allocated to the underlying assets pro rata using reserve volumes or reserve values as of that date. As the Corporation's oil and gas activities are in the exploration and evaluation stage, it has elected to carry these assets at cost determined under Canadian GAAP, subject to impairment testing.

Reconciliation of Shareholders’ Deficiency as at December 31, 2010 and June 30, 2010 as previously reported under Canadian GAAP to IFRS

As at		December 31, 2010				June 30, 2010			
			Transition	2010			Transition	2010	
	Ref:	Canadian	Date	IFRS		Canadian	Date	IFRS	
ASSETS		GAAP	Adjustments	Adjustments	IFRS	GAAP	Adjustments	Adjustments	IFRS
Current									
Cash and cash equivalents		$ 1,055,193	$ -	$ -	$ 1,055,193	$ 33,453	$ -	$ -	$ 33,453
Short term investments		60,755	-	-	60,755	1,324,456	-	-	1,324,456
Accounts receivable		1,537,403	-	-	1,537,403	130,092	-	-	130,092
Prepaids		46,509	-	-	46,509	55,471	-	-	55,471
		2,699,860	-	-	2,699,860	1,543,472	-	-	1,543,472
Property, plant and equipment	i	352,307	1,053,979	-	1,406,286	761,866	1,053,979	-	1,815,845
Exploration and evaluation properties	i, vii	21,117,753	3,474,879	2,163,924		22,445,668	3,474,879	(388,896)	
	v		-	(79,701)			-	18,387	
	ii		(15,172,885)	-			(15,172,885)	-	
	iii		(6,838,969)	-	4,665,001		(6,838,969)	-	3,538,184
		$ 24,169,920	$ (17,482,996)	$ 2,084,223	$ 8,771,147	$ 24,751,006	$ (17,482,996)	$ (370,509)	$ 6,897,501
LIABILITIES									
Current									
Accounts payable and accrued liabilities		$ 223,228	$ -	$ -	$ 223,228	$ 387,128	$ -	$ -	$ 387,128
Payable to Dundee Energy Limited		-	-	-	-	540,658	-	-	540,658
Decommissioning liability	iv, v	1,694,168	(114,207)	(79,701)	-	1,648,379	(114,207)	18,387	
	vi	-	-	(69,692)	1,430,568	-	-	(34,658)	1,517,901
		1,917,396	(114,207)	(149,393)	1,653,796	2,576,165	(114,207)	(16,271)	2,445,687
Accrued dividends on Series A Preference Shares		3,095,536	-	-	3,095,536	2,447,251	-	-	2,447,251
Series A Preference Shares		32,150,000	-	-	32,150,000	32,150,000	-	-	32,150,000
		37,162,932	(114,207)	(149,393)	36,899,332	37,173,416	(114,207)	(16,271)	37,042,938
SHAREHOLDERS' DEFICIENCY									
Share capital		1	-	-	1	1	-	-	1
Contributed surplus		15,287	-	-	15,287	12,263	-	-	12,263
Deficit	i	(13,008,300)	4,528,858	-		(12,434,674)	4,528,858	-	
	ii		(15,172,885)	-			(15,172,885)	-	
	iii		(6,838,969)	-			(6,838,969)	-	
	iv		114,207	-			114,207	-	
	vii		-	2,163,924			-	(388,896)	
	vi		-	69,692			-	34,658	
			-	-	(28,143,473)		-	-	(30,157,701)
		(12,993,012)	(17,368,789)	2,233,616	(28,128,185)	(12,422,410)	(17,368,789)	(354,238)	(30,145,437)
		$ 24,169,920	$ (17,482,996)	$ 2,084,223	$ 8,771,147	$ 24,751,006	$ (17,482,996)	$ (370,509)	$ 6,897,501

For illustrative purposes, amounts previously classified as “oil and gas properties” in the Corporation’s interim and annual financial statements prepared in accordance with Canadian GAAP have been reclassified to “exploration and evaluation properties”, except for net amounts relating to the Corporation’s mobile offshore production unit, the “Ocean Patriot” (the “MoPU”), which have been reclassified to property, plant and equipment. Additionally, amounts associated with the Corporation’s site restoration and reclamation costs have been renamed “decommissioning liabilities” in accordance with nomenclature used under IFRS. Under Canadian GAAP, these amounts were recorded as “asset retirement obligations”.

Reconciliation of the Statement of Operations and Comprehensive Loss and the Statement of Cash Flow for the three and six months ended June 30, 2010 as previously reported under Canadian GAAP to IFRS

	Ref:	Six months ended June 30, 2010 Canadian GAAP	Transition Date Adjustments	2010 IFRS Adjustments	IFRS	Three months ended June 30, 2010 Canadian GAAP	Transition Date Adjustments	2010 IFRS Adjustments	IFRS
INCOME									
Interest and other		$ 4,401	$ -	$ -	$ 4,401	$ 1,457	$ -	$ -	$ 1,457
		4,401	-	-	4,401	1,457	-	-	1,457
EXPENSES									
General and administrative		980,194	-	-	980,194	366,986	-	-	366,986
Impairment of exploration and evaluation expenditures	vii	-	-	388,896	388,896	-	-	193,475	193,475
Dividends on Series A Preference Shares		637,715	-	-	637,715	320,620	-	-	320,620
Depreciation and accretion	vi	45,788	-	(45,788)	-	22,894	-	(22,894)	-
Interest expense	vi	1,863	-	11,130	12,993	827	-	5,883	6,710
Foreign exchange gain		(993)	-	-	(993)	(9,120)	-	-	(9,120)
		1,664,567	-	354,238	2,018,805	702,207	-	176,464	878,671
NET AND COMPREHENSIVE LOSS FOR THE PERIOD		$ (1,660,166)	$ -	$ (354,238)	$ (2,014,404)	$ (700,750)	$ -	$ (176,464)	$ (877,214)
Basic and diluted net loss per share		$ (0.05)			$ (0.06)	$ (0.02)			$ (0.03)

	Ref:	Six months ended June 30, 2010 Canadian GAAP	Transition Date Adjustments	2010 IFRS Adjustments	IFRS	Three months ended June 30, 2010 Canadian GAAP	Transition Date Adjustments	2010 IFRS Adjustments	IFRS
OPERATING ACTIVITIES									
Loss from operations		$ (1,660,166)	$ -	$ (354,238)	$ (2,014,404)	$ (700,750)	$ -	$ (176,464)	$ (877,214)
Non-cash items in operations									
Depreciation and accretion	vi	45,788	-	(45,788)	-	22,894	-	(22,894)	-
Accrued dividends on Series A Preference Shares		637,715	-	-	637,715	320,620	-	-	320,620
Impairment of exploration and evaluation expenditures	vii	-	-	388,896	388,896	-	-	193,475	193,475
Stock based compensation		2,976	-	-	2,976	1,496	-	-	1,496
Other	vi	-	-	11,130	11,130	-	-	5,883	5,883
		(973,687)	-	-	(973,687)	(355,740)	-	-	(355,740)
Changes in non-cash working capital:									
Accounts receivable		(72,631)	-	-	(72,631)	170,882	-	-	170,882
Prepaids		22,182	-	-	22,182	47,067	-	-	47,067
Accounts payable and accrued liabilities		(167,035)	-	-	(167,035)	(51,476)	-	-	(51,476)
		(1,191,171)	-	-	(1,191,171)	(189,267)	-	-	(189,267)
FINANCING ACTIVITIES									
Changes in amounts due to Dundee Energy Limited		389,776	-	-	389,776	243,921	-	-	243,921
		389,776	-	-	389,776	243,921	-	-	243,921
INVESTING ACTIVITIES									
Net proceeds from short term investments		2,680,584	-	-	2,680,584	683,536	-	-	683,536
Investment in property, plant and equipment		(761,866)	-	-	(761,866)	(216,725)	-	-	(216,725)
Investment in exploration and evaluation properties		(1,269,771)	-	-	(1,269,771)	(589,904)	-	-	(589,904)
		648,947	-	-	648,947	(123,093)	-	-	(123,093)
DECREASE IN CASH		(152,448)	-	-	(152,448)	(68,439)	-	-	(68,439)
CASH, BEGINNING OF PERIOD		185,901	-	-	185,901	101,892	-	-	101,892
CASH, END OF PERIOD		$ 33,453	$ -	$ -	$ 33,453	$ 33,453	$ -	$ -	$ 33,453

References to the IFRS Conversion Adjustments

Transition Date Adjustments

IFRS 6, *"Exploration and Evaluation of Mineral Resources"* ("IFRS 6")
As permitted under IFRS 6, the Corporation elected to adopt the "modified full cost" method to account for its exploration and evaluation activities.

(i) In completing its assessment of costs previously included in the Corporation's statements of financial position, the Corporation segregated its interest in the MoPU, which had been acquired with the expectation of producing, processing and transporting oil on certain development concessions in Tunisia. As this is a tangible asset, its carrying value was segregated from exploration and evaluation properties and reclassified to property, plant and equipment.

    In segregating the costs associated with the MoPU from exploration and evaluation properties, the Corporation allocated proceeds received pursuant to certain farmout arrangements to its carrying value in the MoPU, resulting in the recognition of a gain of $4,528,858. Under Canadian GAAP, these amounts had been applied to reduce the carrying value of exploration and evaluation properties.

Subsequent expenditures incurred in respect of the MoPU, which at the Transition Date aggregated $1,053,979, have been included in property, plant and equipment.

IAS 36, *"Impairment of Assets"* ("IAS 36")
Under Canadian GAAP and full cost accounting, impairment testing of exploration and evaluation properties was performed on the basis of expected recoverability of costs in each geographic area. For purposes of impairment testing under IFRS, exploration and evaluation properties are grouped into cash generating units.

The Corporation has determined that its exploration and evaluation properties may be segregated into three separate cash generating units including (a) costs associated with exploration and evaluation activities conducted onshore which, as at the Transition Date, amounted to $15,172,885; (b) costs associated with the Ras-El-Besh development concession which, at the Transition Date, amounted to $6,838,969 and (c) all other exploration and evaluation activities conducted offshore pursuant to the Sfax Permit which, at the Transition Date, amounted to $2,638,922.

(ii) Following a detailed analysis of impairment indicators, the Corporation determined that it was appropriate to recognize an impairment of $15,172,885 in respect of exploration and evaluation properties located onshore as the Corporation was no longer proceeding with exploration and evaluation of onshore opportunities in Tunisia.

(iii) Based on these same parameters, the Corporation determined that it was also appropriate to recognize an impairment of $6,838,969 in respect of the Ras-El-Besh development concession as the Corporation had not been able to discover sufficient reserves to give commercial viability to this prospect.

IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37")
Accounting for decommissioning liabilities pursuant to IFRS currently falls under IAS 37. IFRS requires the inclusion of both constructive and legal obligations in determining the amount of a decommissioning liability. While only legal obligations are required under Canadian GAAP, the Corporation has historically included both legal and constructive obligations in its estimate of decommissioning liabilities.

Consistent with Canadian GAAP, decommissioning liabilities under IFRS are recorded in the financial statements on a discounted basis. However, discount rates used under IFRS should reflect the risks specific to the decommissioning liability, whereas under Canadian GAAP, discount rates for asset retirement obligations are based on the entity's credit-adjusted risk-free rate. At each period end, IFRS requires that the Corporation remeasure its decommissioning liability for market interest changes in the discount rate, whereas under Canadian GAAP, changes in discount rates alone do not result in a remeasurement of the asset retirement obligation. IFRS also requires remeasurement of the decommissioning liability to reflect changes in foreign exchange rates in instances where such decommissioning liabilities are denominated in foreign currencies, whereas under Canadian GAAP, changes resulting solely from changes in foreign exchange rates do not result in a remeasurement of the asset retirement obligation.

(iv) The Corporation completed the calculation of its decommissioning liability as at the Transition Date using a market interest rate and foreign exchange rate appropriate as at the Transition Date. Accordingly, the Corporation's decommissioning liability has been decreased by $114,207. As the assets relating to this decommissioning liability have been fully impaired, changes to the carrying value of the decommissioning liability as a result of implementing IFRS have been charged to the deficit.

IFRS Adjustments Subsequent to the Transition Date

(v) During the three and six months ended June 30, 2010, changes in prevailing market interest rates and foreign exchange rates resulted in increases to the decommissioning liability of $68,221 and $18,387, respectively compared with the carrying value of such decommissioning liabilities in accordance with Canadian GAAP. Consistent with the methodology applied at the Transition Date, as the assets relating to this decommissioning liability have been fully impaired, changes to the carrying value of the decommissioning liability resulting from changes in market interest rates and foreign exchange rates have been charged to the statement of operations.

(vi) Consistent with Canadian GAAP, the Corporation accretes the decommissioning liability to reflect the passage of time. Under Canadian GAAP, the accretion amount was included in depreciation and accretion expense. IFRS requires that the accretion amount be classified as a financing cost. Accordingly, accretion amounts have been included in interest expense. As a result of the impact of changes in market interest and foreign exchange rates to the decommissioning liability, accretion expense during the three and six months ended June 30, 2010 has decreased by $17,011 and $34,658, respectively, compared with accretion expense calculated under Canadian GAAP.

(vii) During 2010, the Corporation continued to incur exploration and evaluation costs associated with the Ras-El-Besh concession. Under Canadian GAAP, these amounts were capitalized to exploration and evaluation properties. On transition to IFRS, and as a result of impairment indicators as defined by IFRS, the resulting assets were considered impaired. Accordingly, during the three and six months ended June 30, 2010, the Corporation recognized an impairment amount of $193,475 and $388,896, respectively.

6. SHORT TERM INVESTMENTS

The Corporation did not hold any short term investments at June 30, 2011. At December 31, 2010, the Corporation held guaranteed investment certificates ("GICs") from a Canadian Schedule I Chartered Bank with a par value of $60,000. Unrealized appreciation in the fair value of short term investments at December 31, 2010 was $755.

7. PROPERTY, PLANT AND EQUIPMENT

The Corporation holds a 45% interest in the MoPU, which was originally acquired with the expectation of producing, processing and transporting oil on certain development concessions related to the Corporation's oil and gas activities.

		Investment in MoPU
Carrying value, January 1, 2010	$	1,053,979
Transactions during the six months ended June 30, 2010		
Investment		761,866
Carrying value, June 30, 2010		1,815,845
Transactions from July 1, 2010 to December 31, 2010		
Investment		94,715
Settlement of litigation with Seawolf (Note 8)		(504,274)
Carrying value, December 31, 2010		1,406,286
Transactions during the six months ended June 30, 2011		
Investment		94,016
Carrying value, June 30, 2011	$	1,500,302

8. EXPLORATION AND EVALUATION PROPERTIES

		Sfax Exploration Permit		Ras-El-Besh Concession		Exploration and Evaluation Properties
Carrying value, January 1, 2010	$	2,638,922	$	-	$	2,638,922
Transactions during the six months ended June 30, 2010						
Investments		899,262		370,509		1,269,771
Changes related to decommissioning liability		-		18,387		18,387
Impairment		-		(388,896)		(388,896)
Carrying value, June 30, 2010		3,538,184		-		3,538,184
Transactions from July 1, 2010 to December 31, 2010						
Investments		1,126,817		124,484		1,251,301
Changes related to decommissioning liability		-		(98,088)		(98,088)
Impairment		-		(26,396)		(26,396)
Carrying value, December 31, 2010		4,665,001		-		4,665,001
Transactions during the six months ended June 30, 2011						
Investments		692,989		150,922		843,911
Changes related to decommissioning liability		-		(43,833)		(43,833)
Impairment		-		(107,089)		(107,089)
Carrying value, June 30, 2011	$	5,357,990	$	-	$	5,357,990

The Corporation has entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction operations pursuant to the working interest awarded to them in the Sfax Offshore Permit (the "Sfax Permit") and the related Ras-El-Besh concession, both located in Tunisia. The Corporation owns a 45% working interest in the joint operating agreement. APEX is the operating partner in the joint venture arrangement.

On January 19, 2009, the Tunisian government approved a two-year extension to the Sfax Permit, extending the primary term to December 8, 2011. On June 23, 2011, the Tunisian government further extended the period of the Sfax Permit to December 8, 2012. As a condition of the extensions, the Corporation indirectly committed to drill an additional exploration well on the Sfax Permit during the extension period (Note 16).

Declaration of Force Majeure

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 concession. The Corporation and APEX continue to believe that the current political uncertainty and civil unrest in Tunisia, which have resulted in government collapse, a declaration of a state of emergency and serious civil disturbance, adversely affects their ability to continue their exploration and evaluation activities in Tunisia. The Corporation believes that the declaration of Force Majeure will allow the Corporation and APEX to temporarily suspend their activities, while the conditions resulting in the Force Majeure continue. Once the situation in Tunisia is resolved, the Corporation anticipates that it will resume its exploration and evaluation activities.

Farmout Arrangements with Delta Hydrocarbons B.V.

During 2008, the Corporation and APEX entered into a farmout option agreement with Delta Hydrocarbons B.V. (“Delta”), pertaining to the farmout of a 50% interest in the joint operating agreement relating to the Sfax Permit and the Ras-El-Besh concession. Under the farmout option agreement, Delta agreed to expend US$125 million to earn its 50% working interest.

In May 2009, Delta expressed a desire to exit from the farmout option arrangement. Under a settlement agreement, Delta reassigned its 50% working interest in the joint operating agreement in exchange for a portion of certain payments, if and when received by the Corporation and APEX pursuant to their joint operating agreement, to a maximum of US$20 million.

Payments to Delta pursuant to the settlement agreement 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 concession and a share of the proceeds from any sale or lease of the MoPU. Furthermore, Delta remains committed to fund 50% of any costs associated with certain site restoration and reclamation costs associated with the Ras-El-Besh concession until December 8, 2011.

Arbitration against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited

In 2009, APEX, on behalf of the participants in the joint operating agreement, commenced arbitration proceedings against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited, seeking damages for misrepresentations and breach of a drilling contract in respect of the REB-3 well drilled on the Ras-El-Besh concession. In May 2010, the parties reached a settlement agreement that provided for a US$12 million payment to the participants in the joint operating agreement over an 18 month period ending October 2011. The settlement amount is secured by a letter of guarantee issued by a recognized international bank.

During the year ended December 31, 2010, the Corporation received cash of $2,131,001 (US$2,090,483) and recognized further amounts receivable of $1,491,900 (US$1,500,000), as its share of the expected settlement proceeds. The Corporation applied $504,274 received from the settlement against costs associated with the MoPU and realized a gain from the settlement of $2,579,216.

In addition, during the year ended December 31, 2010, the Corporation applied $587,819 of the proceeds to reduce legal expenses funded by the Corporation on behalf of Delta. The Corporation realized a foreign exchange loss of $48,408 on the conversion of the proceeds to Canadian dollars.

During the six months ended June 30, 2011, the Corporation received US$900,000 against amounts outstanding pursuant to these arrangements.

9. DECOMMISSIONING LIABILITY

	Decommissioning Liability
Balance, January 1, 2010	$ 1,488,384
Transactions during the six months ended June 30, 2010	
Accretion*	11,130
Adjustment for changes in market interest and foreign exchange rates	18,387
Balance, June 30, 2010	1,517,901
Transactions from July 1, 2010 to December 31, 2010	
Accretion*	10,755
Adjustment for changes in market interest and foreign exchange rates	(98,088)
Balance, December 31, 2010	1,430,568
Transactions during the six months ended June 30, 2011	
Accretion*	11,903
Adjustment for changes in market interest and foreign exchange rates	(43,833)
Balance, June 30, 2011	$ 1,398,638

* Accretion has been included as interest expense in these interim financial statements.

Upon completion of drilling and testing of the REB-3 well within the Ras-El-Besh concession, APEX and the Corporation requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig pending further assessment of geological and geophysical data. APEX and the Corporation have since determined that it is appropriate to abandon the well.

The participants in the joint operating agreement have estimated that the aggregate costs required for site restoration and abandonment of the REB-3 well is between US$5.5 million and US$10 million. The aggregate cost is dependent on the type of rig that will be used and on the costs of mobilizing and demobilizing the offshore rig. The Corporation estimates that its share of the site restoration and abandonment costs is US$1,462,500 on an undiscounted basis and assumes that Delta will fulfill its commitment to fund its share of abandonment costs prior to December 8, 2011. Accordingly, the Corporation has recorded a decommissioning liability on June 30, 2011 of $1,398,638 based on the following key assumptions:

- Expected settlement date in fiscal 2011;
- Foreign exchange rate of US$0.9643 per Canadian dollar (December 31, 2010 – US$0.9946; June 30, 2010 - US$1.0606; January 1, 2010 – US$1.0466); and
- Discount rate of 1.68% (December 31, 2010 – 1.68%; June 30, 2010 – 1.45%; January 1, 2010 – 1.41%).

10. INCOME TAXES

At June 30, 2011, the Corporation had operating loss carry forwards of $2,830,999 (December 31, 2010 - $2,252,848). A summary of the operating loss carry forwards by year of expiry is as follows:

Year of Expiry:	
2011	$ -
2012	105,686
2013	4,596
2014	209,120
2015	370,363
Thereafter	2,141,234
	$ 2,830,999

The Corporation has not recognized the benefit of certain loss carry forwards as management believes that it is probable that such benefits will not be realized.

The Corporation's income tax provision differs from the amount that would be computed by applying the Barbados statutory income tax rate as a result of the following:

	For the six months ended	
	June 30, 2011	June 30, 2010
Anticipated income tax recovery based on Barbados' statutory income tax rate of 2.5% (June 30, 2010 - 2.5%)	$ (30,083)	$ (50,360)
Non-deductible expenses	16,249	32,747
Tax losses and other temporary differences not recognized	13,834	17,613
Income tax provision	$ -	$ -

11. 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

The Corporation has issued 32,150,000 Series A Preference Shares with a face value of $32,150,000. 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 the holder to a fixed preferential cumulative dividend at the rate of 4% per annum.

The Series A Preference Shares may be redeemed at the option of the holder or retracted at the option of the Corporation at any time at a price equal to their face value of $1 per Series A Preference Share.

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, the holder of the Series A Preference Shares 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. The holder of the Series A Preference Shares has indicated to the Corporation that it has agreed to waive this entitlement through to December 31, 2011.

During the three and six months ended June 30, 2011, the Corporation recognized an expense of $320,620 and $637,715 respectively (three and six months ended June 30, 2010 - $320,620 and $637,715 respectively) in operations, representing the dividends accrued on the Series A Preference Shares during the respective periods. The holder of the Series A Preference Shares has indicated to the Corporation that it does not intend to exercise its redemption entitlement until December 31, 2011. It has also agreed to accept the deferral of the payment of the associated cumulative dividends at June 30, 2011 of $3,733,251 (December 31, 2010 – $3,095,536; June 30, 2010 - $2,447,251) until December 31, 2011.

12. SHARE CAPITAL

	Number of Shares		Capital		Contributed Surplus
Outstanding, January 1, 2010	31,143,635	$	1	$	9,287
Transactions during the year ended December 31, 2010					
Stock based compensation	-		-		6,000
Outstanding, December 31, 2010	31,143,635	$	1	$	15,287
Transactions during the six months ended June 30, 2011					
Stock based compensation	-		-		2,976
Outstanding, June 30, 2011	31,143,635	$	1	$	18,263

Common Shares Issued and Outstanding

The Corporation is authorized to issue an unlimited number of common shares. At June 30, 2011 and at each of December 31, 2010 and June 30, 2010, the Corporation had 31,143,635 common shares issued and outstanding.

Stock Based Compensation

A detailed description of the Corporation's stock based compensation arrangements is provided in Note 8 to the Corporation's 2010 Audited Financial Statements, which were prepared using Canadian GAAP.

Share Option Plan

At June 30, 2011, the Corporation had 600,000 outstanding options (December 31, 2010 and June 30, 2010 – 600,000 options) with a weighted average exercise price of $0.10 per option, of which 600,000 options (December 31, 2010 and June 30, 2010 – 400,000 options) had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life at June 30, 2011 of 2.96 years.

During the three and six months ended June 30, 2011, the Corporation recognized stock based compensation expense of $1,496 and $2,976 respectively (three and six months ended June 30, 2010 - $1,496 and $2,976 respectively).

Deferred Share Unit Plan

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

13. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

	Three months ended				Six months ended			
		June 30, 2011		June 30, 2010		June 30, 2011		June 30, 2010
Salary and salary-related	$	48,324	$	52,151	$	100,646	$	108,526
Stock based compensation		1,496		1,496		2,976		2,976
Corporate and professional fees		230,200		437,732		523,557		1,134,669
General office		21,529		21,003		56,731		50,990
Expense recoveries		(2,532)		(13,504)		(9,917)		(30,384)
Capitalization of general and administrative costs		(170,930)		(131,892)		(300,125)		(286,583)
	$	128,087	$	366,986	$	373,868	$	980,194

14. NET LOSS PER SHARE

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net loss from operations attributable to shareholders	$ (526,538)	$ (877,214)	$ (1,203,317)	$ (2,014,404)
Weighted average number of common shares outstanding	31,143,635	31,143,635	31,143,635	31,143,635
Basic and diluted net loss per common share	$ (0.02)	$ (0.03)	$ (0.04)	$ (0.06)

15. RELATED PARTY TRANSACTIONS

The Corporation has entered into a services arrangement with Dundee Resources Limited. Dundee Resources Limited is a wholly owned subsidiary of Dundee Corporation, the principal shareholder of the Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and six months ended June 30, 2011, the Corporation incurred costs of $92,833 and $166,532 respectively (three and six months ended June 30, 2010 - $112,992 and $218,349 respectively), in respect of these arrangements.

At January 1, 2010, the Company had borrowed $150,882 (June 30, 2010 - $540,658) from Dundee Energy Limited (formerly Eurogas Corporation), the holder of the Corporation's Series A Preference Shares. The amounts were due on demand, were unsecured and were non-interest bearing. Amounts borrowed were fully repaid during 2010. There were no amounts outstanding to Dundee Energy Limited at December 31, 2010.

Key Management Compensation

Compensation and other fees paid to directors of the Corporation during the three and six months ended June 30, 2011 and 2010 is shown below:

	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Directors fees and consulting arrangements	$ 78,374	$ 82,624	$ 161,249	$ 170,249
Stock based compensation	1,496	1,496	2,976	2,976
Benefits	1,199	776	1,896	776
	$ 81,069	$ 84,896	$ 166,121	$ 174,001

16. COMMITMENTS

As part of the Tunisian government's approval of extensions on the Sfax Permit to December 8, 2012, APEX and the Corporation are committed to drilling one new exploration well with depth to a specified geological zone during the extension period. The actual cost for the exploration well will depend on the selection of the prospect and location within the Sfax Permit. 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 regulatory bodies, less any amounts incurred by APEX and the Corporation in respect of the completion of its obligation. The Corporation is also required to complete the abandonment of the REB-3 well (Note 9). The Corporation estimates that its share of the cost to meet these two commitments is US$7.6 million, assuming that Delta fulfills its commitment to fund its share of costs associated with the abandonment of the REB-3 well prior to December 8, 2011.

17. FINANCIAL INSTRUMENTS

There have been no significant changes in the business and economic circumstances and the related financial risks that affect the fair value of the Corporation's financial assets and financial liabilities since December 31, 2010.

A detailed description of the Corporation's financial assets and financial liabilities and its associated risk management in respect thereof are provided in Note 12 to the 2010 Audited Financial Statements, which were prepared using Canadian GAAP. There were no significant changes to the description of the Corporation's financial assets and financial liabilities and its associated risk management arising out of the transition to IFRS.