EUROGAS INTERNATIONAL INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

Management's Responsibility for Financial Statements

The accompanying financial statements, the notes thereto and other financial information contained in the Corporation's management's discussion and analysis have been prepared by, and are the responsibility of, the management of the Corporation. These financial statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Corporation, meets with management as well as the external auditor to satisfy itself that management is properly discharging its financial reporting responsibilities and to review its financial statements and the report of the auditor. It reports its findings to the Board of Directors, which approves the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards. The auditor has full and unrestricted access to the Audit Committee.

(S*igned*)
M. Jaffar Khan
President and Chief Executive Officer

(S*igned*)
D. Christopher Hope
Chief Financial Officer

January 31, 2012

Independent Auditor's Report

To the Shareholders of Eurogas International Inc.

We have audited the accompanying financial statements of Eurogas International Inc. (Eurogas or the Corporation), which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and comprehensive loss, the statements of changes in shareholders' deficiency, and the statements of cash flow for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eurogas International Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its results of operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Corporation's ability to continue as a going concern.

[Signed]

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
January 31, 2012

EUROGAS INTERNATIONAL INC.
STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian Dollars)

	Note	December 31, 2011	As at December 31, 2010	January 1, 2010
ASSETS				
Current				
Cash		$ 99,550	$ 1,055,193	$ 185,901
Short term investments	6	-	60,755	4,005,040
Accounts receivable	8	39,897	1,537,403	57,461
Prepaids	9	601,414	46,509	77,653
		740,861	2,699,860	4,326,055
Non-current				
Property, plant and equipment	7	1,618,776	1,406,286	1,053,979
Exploration and evaluation properties	8	5,875,923	4,665,001	2,638,922
		$ 8,235,560	$ 8,771,147	$ 8,018,956
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 127,994	$ 191,689	$ 517,084
Payable to Dundee Corporation	15	769,720	31,539	37,079
Payable to Dundee Energy Limited	15	-	-	150,882
Decommissioning liability	9	946,518	1,430,568	-
Accrued dividends on Series A Preference Shares	11	4,381,536	-	-
Series A Preference Shares	11	32,150,000	-	-
		38,375,768	1,653,796	705,045
Non-current				
Decommissioning liability	9	-	-	1,488,384
Accrued dividends on Series A Preference Shares	11	-	3,095,536	1,809,536
Series A Preference Shares	11	-	32,150,000	32,150,000
		38,375,768	36,899,332	36,152,965
SHAREHOLDERS' DEFICIENCY				
Share capital	12	1	1	1
Contributed surplus	12	18,000	15,287	9,287
Deficit		(30,158,209)	(28,143,473)	(28,143,297)
		(30,140,208)	(28,128,185)	(28,134,009)
		$ 8,235,560	$ 8,771,147	$ 8,018,956

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

Nature of Operations and Going Concern Assumption (Note 1)

Commitments (Note 16)

On behalf of the Board,

(Signed)
Ned Goodman
Director

(Signed)
Derek H.L. Buntain
Director

EUROGAS INTERNATIONAL INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31, 2011 and 2010
(expressed in Canadian Dollars)

	Note	2011	2010
INCOME			
Interest and other		$ 21	$ 6,024
		21	6,024
EXPENSES			
Exploration and evaluation expenditures	8	212,349	494,993
Gain from changes in estimates of decommissioning liability	8, 9	(105,458)	(79,701)
General and administrative	13	569,758	789,738
Dividends on Series A Preference Shares	11	1,286,000	1,286,000
Other interest expense		27,293	24,996
Foreign exchange loss		24,815	69,390
		2,014,757	2,585,416
LOSS FROM OPERATIONS		(2,014,736)	(2,579,392)
Gain on settlement of Seawolf litigation	5, 8	-	2,579,216
NET AND COMPREHENSIVE LOSS FOR THE YEAR		$ (2,014,736)	$ (176)
NET LOSS PER COMMON SHARE			
Basic and diluted net loss per common share	14	$ (0.06)	$ -

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the years ended December 31, 2011 and 2010
(expressed 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 year ended December 31, 2010				
Stock based compensation	-	6,000	-	6,000
Net loss for the year	-	-	(176)	(176)
Balance, December 31, 2010	1	15,287	(28,143,473)	(28,128,185)
Transactions for the year ended December 31, 2011				
Stock based compensation	-	2,713	-	2,713
Net loss for the year	-	-	(2,014,736)	(2,014,736)
Balance, December 31, 2011	$ 1	$ 18,000	$ (30,158,209)	$ (30,140,208)

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CASH FLOW

For the years ended December 31, 2011 and 2010
(expressed in Canadian Dollars)

	2011	2010
OPERATING ACTIVITIES		
Net loss for the year	$ (2,014,736)	$ (176)
Non-cash items in operations		
Non-cash changes in accrued dividends on Series A Preference Shares	1,286,000	1,286,000
Gain from changes in estimates of decommissioning liability	(105,458)	(79,701)
Gain on settlement of Seawolf litigation	-	(2,579,216)
Stock based compensation	2,713	6,000
Other	24,053	21,885
	(807,428)	(1,345,208)
Changes in non-cash working capital:		
Accounts receivable	(9,006)	167
Prepaids	(554,905)	31,144
Accounts payable and accrued liabilities	(51,327)	(83,905)
Reclamation expenditures	(402,645)	-
CASH USED IN OPERATING ACTIVITIES	(1,825,311)	(1,397,802)
FINANCING ACTIVITIES		
Changes in amounts due to Dundee Corporation	738,181	(5,540)
Changes in amounts due to Dundee Energy Limited	-	(150,882)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES	738,181	(156,422)
INVESTING ACTIVITIES		
Net proceeds from short term investments	60,755	3,944,285
Investment in property, plant and equipment	(212,490)	(856,581)
Proceeds from settlement of Seawolf litigation	1,469,295	1,591,590
Investment in exploration and evaluation properties	(1,186,073)	(2,255,778)
CASH PROVIDED FROM INVESTING ACTIVITIES	131,487	2,423,516
NET (DECREASE) INCREASE IN CASH DURING THE YEAR	(955,643)	869,292
CASH, BEGINNING OF YEAR	1,055,193	185,901
CASH, END OF YEAR	$ 99,550	$ 1,055,193

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

EUROGAS INTERNATIONAL INC.
NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 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 is domiciled in Barbados and its registered office is c/o George Walton Payne & Company, Suites 205-207 Dowell House, Roebuck & Palmetto Streets, City of Bridgetown, Barbados.

The common shares of the Corporation are listed on the Canadian National Stock Exchange under the symbol "EI". At December 31, 2011, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% of the issued and outstanding common shares of the Corporation.

These financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2011, the Corporation had negative working capital of $37,634,907 (December 31, 2010 – working capital of $1,046,064) and, during the year then ended, it had incurred a net loss of $2,014,736 (year ended December 31, 2010 – net loss of $176). In addition, the Corporation has declared a condition of Force Majeure with respect to certain exploration and evaluation properties (Note 8). These material uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern and, as a result, upon the appropriateness of using accounting principles applicable to a going concern.

The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for such identified reserves, the ability to raise the necessary capital to finance development, and future profitable production or proceeds from disposition. There can be no assurance that the Corporation will be successful in achieving these initiatives.

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

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

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

These financial statements have been prepared in accordance with IFRS as issued by the IASB. These financial statements are the Corporation's first annual financial statements prepared in accordance with IFRS. Prior to January 1, 2010 (the "Transition Date"), the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Note 5 to these financial statements 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, which were prepared under Canadian GAAP.

These financial statements were approved by the Board of Directors for issue on January 31, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Corporation in the preparation of its financial statements are set out below. Subject to certain transition elections on the adoption of IFRS as disclosed in Note 5, the Corporation has consistently applied these accounting policies throughout all periods presented in these financial statements, as if these policies had always been in effect.

Basis of Measurement

The financial statements have been prepared under the historical cost convention, except for certain financial instruments measured at fair value as determined at each reporting date.

Joint Venture Arrangements

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

The Corporation's exploration and evaluation activities are conducted through a 45% working interest in certain jointly controlled assets. These financial statements reflect only the Corporation's proportionate working interest in such jointly controlled assets, its share of any liabilities incurred jointly with the other venturers as well as any liabilities incurred directly, its share of any revenues earned or expenses incurred by the joint venture and any expenses incurred directly.

Foreign Currency

Functional and Presentation Currency

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

Transactions

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

Financial Instruments

The Corporation's financial instruments consist of cash, short term investments, accounts receivable, accounts payable and accrued liabilities, amounts payable to Dundee Corporation and Dundee Energy Limited and the Series A Preference Shares and accrued dividends thereon.

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are no longer recognized when the rights to receive cash flows from the assets have expired or are assigned and the Corporation has transferred substantially all risks and rewards of ownership in respect of the asset to a third party. Financial liabilities are no longer recognized when the related obligation is discharged, cancelled or expires.

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

Financial Assets and Liabilities at Fair Value through Profit and Loss
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives, if any, are also included in this category unless they are designated as hedges. Transaction costs related to these financial instruments are expensed in the statement of operations and comprehensive loss. The Corporation's short term investments are classified as financial instruments at fair value through profit or loss, and as such, are measured initially and subsequently at fair value at the date of the statement of financial position. Both realized and unrealized gains and losses from changes in fair value are recorded in the statement of operations and comprehensive loss as "*interest and other income"* in the period in which they arise.

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

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

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

Impairment of Financial Assets
At each reporting date, the Corporation assesses whether there is objective evidence that financial assets carried at amortized cost are impaired. Objective evidence may include significant financial difficulty of the obligor or delinquencies in interest and principal payments. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. An impairment loss on financial assets carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

Property, Plant and Equipment
The Corporation holds a joint interest in a mobile offshore production unit (the "MOPU") which was acquired with the expectation of producing, processing and transporting oil and natural gas. Costs associated with the MOPU have been included in these financial statements as property, plant and equipment. These costs, less accumulated impairment losses, will be depreciated when the MOPU is available for use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and accordingly, they are tested for impairment on a separate basis.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized on a net basis in the statement of operations and comprehensive loss.

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

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

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

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

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

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

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

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

Income Taxes

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

Per Share Information

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

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, "*Financial Instruments*", 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 2011, the IASB issued amendments to IFRS 9, extending the mandatory effective date for implementation of IFRS 9, which is now effective for annual periods beginning on or after January 1, 2015, although early adoption is permitted, 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"* ("IAS 27"). 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 28, *"Investments in Associates and Joint Venture"* ("IAS 28"), IFRS 7, "*Financial Instruments: Disclosures*" ("IFRS 7") and IAS 32 *"Financial Instruments: Presentation"* ("IAS 32").

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.

Amendments to IFRS 7 require the disclosure of information that will enable users of an entity's financial statements to evaluate the effect, or potential effect, of offsetting financial assets and financial liabilities, to the entity's financial position. Amendments to IFRS 7 are applicable to annual periods beginning on or after January 1, 2013, with retrospective application required.

The amendments to IAS 32 clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on or after January 1, 2014, with retrospective application required. Early adoption is 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. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities included in the Corporation's financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported 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.

The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its financial statements.

Recoverability of the Carrying Value of Exploration and Evaluation Properties

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

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

Decommissioning Liability

The Corporation is required to provide for future abandonment and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts and other policies. The estimate of future abandonment and site restoration costs involves a number of estimates relating to timing, costs directly associated with the abandonment and site restoration activities, and review of potential abandonment methods.

Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. Additionally, future changes in tax laws could limit the ability of the Corporation to obtain tax deductions in future periods. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Deferred tax assets and liabilities are recorded using enacted or substantively enacted future income tax rates which include rate reductions over several years.

5. TRANSITION TO IFRS

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.

The Corporation has applied the provisions of IFRS 1, "*First-Time Adoption of IFRS*" ("IFRS 1"), in these audited financial statements. 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. However, IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions from full retrospective application.

The Corporation has applied the following transition 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, at the Transition Date, it elected to carry these assets at cost as previously determined under Canadian GAAP, subject to impairment testing pursuant to IFRS.

Reconciliation of Shareholders' Deficiency as at December 31, 2010 and January 1, 2010
(Transition from Canadian GAAP to IFRS)

As at		December 31, 2010				January 1, 2010		
			Transition	2010			Transition	
	Ref:	Canadian	Date	IFRS		Canadian	Date	
ASSETS		GAAP	Adjustments	Adjustments	IFRS	GAAP	Adjustments	IFRS
Current								
Cash		$ 1,055,193	$ -	$ -	$ 1,055,193	$ 185,901	$ -	$ 185,901
Short term investments		60,755	-	-	60,755	4,005,040	-	4,005,040
Accounts receivable		1,537,403	-	-	1,537,403	57,461	-	57,461
Prepaids		46,509	-	-	46,509	77,653	-	77,653
		2,699,860	-	-	2,699,860	4,326,055	-	4,326,055
Non-current								
Property, plant and equipment	i	352,307	1,053,979	-	1,406,286	-	1,053,979	1,053,979
Exploration and evaluation properties	i, vii	21,117,753	3,474,879	2,163,924		21,175,897	3,474,879	
	v		-	(79,701)			-	
	ii		(15,172,885)	-			(15,172,885)	
	iii		(6,838,969)	-	4,665,001		(6,838,969)	2,638,922
		$ 24,169,920	$ (17,482,996)	$ 2,084,223	$ 8,771,147	$ 25,501,952	$ (17,482,996)	$ 8,018,956
LIABILITIES								
Current								
Accounts payable and accrued liabilities		$ 191,689	$ -	$ -	$ 191,689	$ 517,084	$ -	$ 517,084
Payable to Dundee Corporation		31,539	-	-	31,539	37,079	-	37,079
Payable to Dundee Energy Limited		-	-	-	-	150,882	-	150,882
Decommissioning liability	iv, v	1,694,168	(114,207)	(79,701)		-	-	
	vi		-	(69,692)	1,430,568		-	-
		1,917,396	(114,207)	(149,393)	1,653,796	705,045	-	705,045
Non-current								
Decommissioning liability	iv	-	-	-	-	1,602,591	(114,207)	1,488,384
Accrued dividends on Series A Preference Shares		3,095,536	-	-	3,095,536	1,809,536	-	1,809,536
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	36,267,172	(114,207)	36,152,965
SHAREHOLDERS' DEFICIENCY								
Share capital		1	-	-	1	1	-	1
Contributed surplus		15,287	-	-	15,287	9,287	-	9,287
Deficit	i	(13,008,300)	4,528,858	-		(10,774,508)	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			-	
	vi		-	69,692	(28,143,473)		-	(28,143,297)
		(12,993,012)	(17,368,789)	2,233,616	(28,128,185)	(10,765,220)	(17,368,789)	(28,134,009)
		$ 24,169,920	$ (17,482,996)	$ 2,084,223	$ 8,771,147	$ 25,501,952	$ (17,482,996)	$ 8,018,956

For illustrative purposes, amounts previously classified as "oil and gas properties" in the Corporation's annual financial statements prepared in accordance with Canadian GAAP have been reclassified to "exploration and evaluation properties", except for net amounts relating to the MOPU, which have been reclassified to property, plant and equipment. Additionally, amounts associated with the Corporation's abandonment and site restoration costs have been renamed "decommissioning liabilities" in accordance with nomenclature used under IFRS. Under Canadian GAAP, these amounts were recorded as an "asset retirement obligation".

Reconciliation of Statement of Operations and Comprehensive Loss and Statement of Cash Flow for the year ended December 31, 2010 (Transition from Canadian GAAP to IFRS)

	Ref:	Year ended December 31, 2010 Canadian GAAP	2010 IFRS Adjustments	IFRS
INCOME				
Interest and other		$ 6,024	$ -	$ 6,024
		6,024	-	6,024
EXPENSES				
Exploration and evaluation expenditures	viii	-	494,993	494,993
Gain from changes in estimates of decommissioning liability	v	-	(79,701)	(79,701)
General and administrative		789,738	-	789,738
Dividends on Series A Preference Shares		1,286,000	-	1,286,000
Depreciation and accretion	vi	91,577	(91,577)	-
Other interest expense	vi	3,111	21,885	24,996
Foreign exchange loss		69,390	-	69,390
		2,239,816	345,600	2,585,416
LOSS FROM OPERATIONS		(2,233,792)	(345,600)	(2,579,392)
Gain on settlement of Seawolf litigation	vii	-	2,579,216	2,579,216
NET AND COMPREHENSIVE LOSS FOR THE YEAR		$ (2,233,792)	$ 2,233,616	$ (176)
Basic and diluted net loss per share		$ (0.07)		$ -

	Ref:	Year ended December 31, 2010 Canadian GAAP	2010 IFRS Adjustments	IFRS
OPERATING ACTIVITIES				
Net loss for the year		$ (2,233,792)	$ 2,233,616	$ (176)
Non-cash items in operations				
Depreciation and accretion	vi	91,577	(91,577)	-
Non-cash changes in accrued dividends on Series A Preference Shares		1,286,000	-	1,286,000
Gain from changes in estimates of decommissioning liability	v	-	(79,701)	(79,701)
Gain on settlement of Seawolf litigation	vii	-	(2,579,216)	(2,579,216)
Stock based compensation		6,000	-	6,000
Other	vi	-	21,885	21,885
		(850,215)	(494,993)	(1,345,208)
Changes in non-cash working capital:				
Accounts receivable		167	-	167
Prepaids		31,144	-	31,144
Accounts payable and accrued liabilities		(83,905)	-	(83,905)
CASH USED IN OPERATING ACTIVITIES		(902,809)	(494,993)	(1,397,802)
FINANCING ACTIVITIES				
Changes in amounts due to Dundee Corporation		(5,540)	-	(5,540)
Changes in amounts due to Dundee Energy Limited		(150,882)	-	(150,882)
CASH USED IN FINANCING ACTIVITIES		(156,422)	-	(156,422)
INVESTING ACTIVITIES				
Net proceeds from short term investments		3,944,285	-	3,944,285
Investment in property, plant and equipment		(856,581)	-	(856,581)
Proceeds from settlement of Seawolf litigation		1,591,590	-	1,591,590
Investment in exploration and evaluation properties	viii	(2,750,771)	494,993	(2,255,778)
CASH PROVIDED FROM INVESTING ACTIVITIES		1,928,523	494,993	2,423,516
INCREASE IN CASH DURING THE YEAR		869,292	-	869,292
CASH, BEGINNING OF YEAR		185,901	-	185,901
CASH, END OF YEAR		$ 1,055,193	$ -	$ 1,055,193

Explanation of IFRS Transition 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 on transition to IFRS.

(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, the proceeds 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 CGUs.

The Corporation has determined that its exploration and evaluation properties may be segregated into three separate CGUs including (a) costs associated with exploration and evaluation activities conducted onshore Tunisia 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 Tunisia pursuant to the Sfax Permit (Note 8) 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 Tunisia as the Corporation was no longer proceeding with exploration and evaluation in this area.

(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 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 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 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) Changes in prevailing market interest rates and foreign exchange rates throughout 2010 resulted in further decreases of $79,701 in the Corporation's decommissioning liability, compared with the carrying value of such decommissioning liability in accordance with Canadian GAAP.

(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 pursuant to IFRS decreased by $69,692 compared with accretion expense calculated under Canadian GAAP.

(vii) During 2010, and as a result of the settlement of the litigation with Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited (Note 8), the Corporation recovered certain expenses previously incurred in respect of the Ras El Besh development concession. Under Canadian GAAP, these amounts were applied to reduce the cost of exploration and evaluation properties. As the related exploration and evaluation properties were fully impaired under IFRS, proceeds received from the above-referenced litigation, to the extent related to the Ras El Besh development concession, were recognized in operations. Accordingly, in 2010, the Corporation realized a gain on settlement of the litigation of $2,579,216.

(viii) During 2010, the Corporation continued to incur exploration and evaluation costs associated with the Ras El Besh development 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, these amounts, which aggregated $494,993, were expensed as exploration and evaluation expenditures.

6. SHORT TERM INVESTMENTS

The Corporation did not hold any short term investments at December 31, 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 (January 1, 2010 - $4,000,000). Unrealized appreciation in the fair value of short term investments at December 31, 2010 was $755 (January 1, 2010 - $5,040).

7. PROPERTY, PLANT AND EQUIPMENT

The Corporation holds a 45% joint interest in Innovative Production Services Ltd. ("IPS"). IPS holds title to the MOPU, which was originally acquired with the expectation of producing, processing and transporting oil on certain development concessions associated with the Corporation's exploration and evaluation properties. The Corporation may consider alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

		Investment in MOPU
Carrying value, January 1, 2010	$	1,053,979
Transactions during the year ended December 31, 2010		
Investment		856,581
Settlement of litigation with Seawolf		(504,274)
Carrying value, December 31, 2010		1,406,286
Transactions during the year ended December 31, 2011		
Investment		212,490
Carrying value, December 31, 2011	$	1,618,776

8. EXPLORATION AND EVALUATION PROPERTIES

The Corporation is engaged in exploration and evaluation activities on certain properties in Tunisia, targeting large scale oil and natural gas reserves.

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, January 1, 2010	$	2,638,922
Transactions during the year ended December 31, 2010		
Investments		2,026,079
Carrying value, December 31, 2010		4,665,001
Transactions during the year ended December 31, 2011		
Investments		1,210,922
Carrying value, December 31, 2011	$	5,875,923

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

The Corporation has entered into a joint venture arrangement with APEX, pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction activities on the 1.0 million acre Sfax Offshore Permit (the "Sfax Permit") located offshore Tunisia. The Sfax Permit encompasses several prospects and leads, including the Salloum and Jawhara prospects, as well as a development concession granted over the Ras El Besh prospect. The Corporation owns a 45% working interest in the joint venture arrangement and APEX is the operating partner.

On 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 joint venture partners committed to drill an exploration well on the Sfax Permit during the extension period (Note 16).

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

Costs Associated with the Ras El Besh Development Concession
The Corporation has determined that sufficient reserves have not been discovered in the Ras El Besh development concession to give commercial viability to this prospect. However, the Corporation continued to incur exploration and evaluation costs and technical and administrative costs associated primarily with the decision as to whether it should abandon the REB-3 well within the Ras El Besh development concession. During the year ended December 31, 2011, the Corporation incurred costs of $212,349 (2010 - $494,993) in respect of the Ras El Besh development concession. These costs have been recognized as *"exploration and evaluation expenditures"* in the Corporation's statement of operations and comprehensive loss.

Primarily as a result of a favourable change in the Corporation's estimated future abandonment and site restoration costs, during the year ended December 31, 2011, the Corporation recognized a gain of $105,458 (2010 - $79,701) from changes in its estimated decommissioning liability (Note 9).

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% working interest in the joint venture arrangement relating to the Sfax Permit and the Ras El Besh development concession. In May 2009, Delta expressed a desire to exit from the farmout option agreement. Under a settlement arrangement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the joint venture partners, to a maximum of US$20 million.

Payments to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil portion of any future production revenues realized from the Sfax Permit and the Ras El Besh development concession and a share of the proceeds from any sale or lease of the MOPU. Furthermore, Delta committed to funding 50% of abandonment and site restoration costs associated with the Ras El Besh development concession, and these amounts were advanced to APEX, as operator of the joint venture arrangement, in December 2011, concurrent with the Tunisian governmental approval to proceed with these activities (Note 9).

Litigation against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited
In 2009, APEX, on behalf of the joint venture partners, 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 development concession. In May 2010, the parties reached a settlement agreement that provided for a US$12 million payment to the joint venture partners over an 18 month period ended October 2011.

The Corporation's share of the settlement proceeds was US$3,590,483, including US$1,500,000 received during the year ended December 31, 2011. During the year ended December 31, 2010, the Corporation allocated $2,579,216 of expected aggregate settlement proceeds to the Ras El Besh development concession, $504,274 against costs associated with the MOPU, and the balance, aggregating approximately $587,819, to reducing associated legal expenses. As the related exploration and evaluation properties were fully impaired, the $2,579,216 related to the Ras El Besh development concession was recognized in these financial statements as a gain on settlement of litigation.

9. DECOMMISSIONING LIABILITY

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

		December 31, 2011		December 31, 2010
Undiscounted future obligations, beginning of year (US dollars)	$	1,462,500	$	1,462,500
Adjustments to estimates		(135,890)		-
Liabilities settled		(395,914)		-
Undiscounted future obligations, end of year (US dollars)	$	930,696	$	1,462,500
Foreign exchange rate		1.0170		0.9946
	$	946,518	$	1,454,603

During the year ended December 31, 2011, the joint venture partners determined that it was appropriate to initiate the abandonment of the REB-3 well. Final approval to proceed was obtained from the Tunisian authorities in December 2011, following which the Corporation and its joint venture partners finalized procurement contracts, secured the necessary equipment, and commenced the abandonment process. Abandonment activities were substantially completed in January 2012. Advantageous arrangements for the leasing of equipment necessary to complete these activities resulted in a favourable change in the estimated costs to complete abandonment and site restoration activities. Accordingly, during the year ended December 31, 2011, the Corporation recognized a gain of $138,200 from changes in its estimated decommissioning liability, before changes resulting from changes in foreign exchange rates.

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

		December 31, 2011		December 31, 2010
Discount rates applied to future obligations		*1.68%*		*1.68%*
Discounted future obligations, beginning of year	$	1,430,568	$	1,488,384
Liabilities settled		(402,645)		-
Adjustments to estimates		(138,200)		-
Effect of changes in foreign exchange rates		32,742		(79,701)
Accretion		24,053		21,885
Discounted future obligations, end of year	$	946,518	$	1,430,568

During the year ended December 31, 2011, the Corporation's share of costs incurred relating to these activities was US$395,914 (Cdn$402,645). In addition, and as required by the terms of the joint venture agreement in respect of the Sfax Permit, the Corporation has advanced a portion of its share of the balance required in order to complete these activities, aggregating US$543,887 (Cdn$553,133) to APEX, as operator of the joint venture arrangement. Amounts advanced to APEX have been included in these financial statements as *"Prepaids"*.

10. INCOME TAXES

The Corporation's activities are subject to income taxation in Barbados at a rate of 2.5%. After consideration of estimated future taxable income and potential tax planning strategies, the Corporation has determined that the benefit of loss carry forwards should not be recognized. Accordingly, the Corporation has not recorded an income tax recovery amount or a deferred income tax asset in respect of its operating losses.

At December 31, 2011, the Corporation had operating loss carry forwards of $3,010,121 (December 31, 2010 - $2,252,848). A summary of the operating loss carry forwards by year of expiry is as follows:

Year of Expiry:		
2012	$	110,850
2013		4,820
2014		219,337
2015		388,459
2016		284,455
Thereafter		2,002,200
	$	3,010,121

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 are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The Series A Preference Shares rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle Dundee Energy to a fixed preferential cumulative dividend at the rate of 4% per annum. Dundee Energy may reinvest any such dividends received into common shares of the Corporation, subject to obtaining the necessary approvals. The Series A Preference Shares may be redeemed at the option of Dundee Energy or retracted at the option of the Corporation at any time at a price equal to their face value of $1 per Series A Preference Share.

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

The Series A Preference Shares are non-voting except in the event the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, Dundee Energy shall be entitled, voting exclusively and separately and as a series, to elect a majority of the members of the Board of Directors of the Corporation.

During the year ended December 31, 2011, the Corporation recognized an expense of $1,286,000 (2010 - $1,286,000), representing the dividends accrued on the Series A Preference Shares. At December 31, 2011, cumulative dividends outstanding were $4,381,536 (2010 - $3,095,536).

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to the redemption of the Series A Preference shares and its entitlement to demand payment of the associated cumulative dividends outstanding. Accordingly, at December 31, 2011, the Corporation has reclassified these obligations to current obligations.

At December 31, 2011, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

12. SHARE CAPITAL

	Number of Shares	Share 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 year ended December 31, 2011			
Stock based compensation	-	-	2,713
Outstanding, December 31, 2011	31,143,635	$ 1	$ 18,000

Common Shares Issued and Outstanding

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

Stock Based Compensation

The Corporation has established certain stock based compensation arrangements, including a share option plan and a deferred share unit plan. The aggregate number of common shares that may be issued from treasury under these arrangements may not exceed 3,114,363 and, during any 12-month period, the number of shares issuable to any one person under these arrangements may not exceed 5% of the total number of common shares outstanding. At December 31, 2011, the Corporation had not issued any shares from treasury pursuant to these arrangements.

Share Option Plan

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

At December 31, 2011, the Corporation had 600,000 outstanding options (December 31, 2010 – 600,000 options) with a weighted average exercise price of $0.10 per option, of which 600,000 options (December 31, 2010 – 400,000 options) had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life at December 31, 2011 of 2.46 years.

During the year ended December 31, 2011, the Corporation recognized stock based compensation expense of $2,713 (2010 - $6,000).

Deferred Share Unit Plan

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

13. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

For the year ended December 31,		2011		2010
Salary and salary-related	$	195,595	$	206,365
Stock based compensation		2,713		6,000
Corporate and professional fees		881,520		1,087,455
General office		66,677		111,533
Expense recoveries		(9,917)		(46,948)
Capitalization of general and administrative costs		(566,830)		(574,667)
	$	569,758	$	789,738

14. NET LOSS PER SHARE

For the years ended December 31,		2011		2010
Net loss from operations attributable to shareholders	$	(2,014,736)	$	(176)
Weighted average number of common shares outstanding		31,143,635		31,143,635
Basic and diluted net loss per common share	$	(0.06)	$	-

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

15. RELATED PARTY TRANSACTIONS

Amounts *"Payable to Dundee Corporation"* represent amounts due to Dundee Corporation, the principal shareholder of the Corporation. At December 31, 2011 and 2010, amounts borrowed from Dundee Corporation, aggregating $769,720 and $31,539, respectively, were due on demand, were unsecured and were non-interest bearing. Subsequent to December 31, 2011, the amounts payable to Dundee Corporation were transferred to a credit facility established by Dundee Corporation for the benefit of the Corporation (Note 18).

Amounts *"Payable to Dundee Energy Limited"* represent amounts due to Dundee Energy Limited (formerly Eurogas Corporation), the holder of the Corporation's Series A Preference Shares. These amounts were due on demand, were unsecured and were non-interest bearing. There were no amounts owing to Dundee Energy Limited at December 31, 2011 and 2010. At January 1, 2010, there was $150,882 payable to Dundee Energy Limited, which amount was fully repaid during the year ended December 31, 2010.

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the year ended December 31, 2011, the Corporation incurred costs of $353,804 (year ended December 31, 2010 - $312,587), 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 year ended December 31, 2011 and 2010 is shown below:

For the year ended December 31,		2011		2010
Directors fees and consulting arrangements	$	318,000	$	328,500
Stock based compensation		2,713		6,000
Benefits		2,595		2,865
	$	323,308	$	337,365

16. COMMITMENTS

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

.

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

17. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, and amounts payable to Dundee Corporation and Dundee Energy Limited approximate their fair value.

The Corporation has not disclosed the fair values of the Series A Preference Shares outstanding and the accrued dividends thereon as they can not be reliably measured, as the obligations are due to a related party.

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

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

At December 31, 2011, there were no financial instruments on the statement of financial position carried at fair value. At December 31, 2010, the Corporation's investment in GICs was the only financial instrument carried on the statement of financial position at fair value. The investment was short term in nature and was, accordingly, valued at cost plus accrued interest, which approximated fair value. The Corporation classified the determination of fair value of the investment as level 2, as the valuation methodology used by the Corporation included an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Risk Management

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

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

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

Interest Rate Risk
Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At December 31, 2011, the Corporation's exposure to interest rate risk was minimal.

Currency Risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation periodically has accounts receivable and accounts payable denominated in foreign currencies, primarily in Euros and US dollars. The Corporation may also have, from time to time, cash balances that are denominated in foreign currencies to facilitate foreign currency transactions.

At December 31, 2011, the Corporation had accounts receivable of US$31,083 (2010 - US$1,500,000) and accounts payable and accrued liabilities of US$5,999 (2010 - US$20,696). A 3% change in the foreign exchange translation rate of Canadian to U.S. dollars would result in a change of approximately $1,100 (2010 - $44,000) to the Corporation's net operating loss.

Credit Risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash held with banks and amounts receivable. The maximum exposure to credit risk is equal to the carrying value of these financial instruments. The Corporation does not hold any collateral as security against these amounts.

Liquidity Risk
Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. The Corporation's ability to develop its properties and recover their carrying values is dependent on management's ability to raise required capital. The following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2011.

	Carrying Amount		Contractual Term to Maturity
Accounts payable and accrued liabilities	$	127,994	Typically due within 20 to 90 days
Payable to Dundee Corporation		769,720	Payable on demand
Decommissioning liability		946,518	Expected settlement - 2012
Accrued dividends on Series A Preference Shares		4,381,536	Payable on declaration by the Board of Directors
Series A Preference Shares		32,150,000	Redeemed at the option of the holder or the Corporation
Total	**$**	**38,375,768**	

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

At December 31, 2011, the Corporation had cash of $99,550, which is insufficient to meet its current obligations and commitments as they become due (Note 1 and Note 16).

Capital Management

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to ensure that it will have sufficient financial capacity to fund its current obligations and pursue exploration and evaluation opportunities as they arise. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint venture arrangements or farmout agreements, or engage in debt financing.

18. SUBSEQUENT EVENT

On January 31, 2012, the Corporation established a $2.5 million revolving term credit facility with Dundee Corporation. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%, and are due on demand. Subsequent to December 31, 2011, amounts previously classified as payable to Dundee Corporation were transferred to, and form part of, amounts owed by the Corporation pursuant to this credit facility (Note 15).

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. Any issuance of common shares by the Corporation pursuant to these arrangements will require regulatory approval.