EUROGAS INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2011

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Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and natural gas company, incorporated under the *Companies Act* (Barbados), and is engaged in exploration and evaluation on its extensive landholdings offshore Tunisia, targeting large scale oil and natural gas reserves. The Corporation holds a 45% working interest, and is the non-operating partner, in the Sfax offshore exploration permit (the "Sfax Permit") covering 908,425 acres located in the shallow Mediterranean waters in the Gulf of Gabes, offshore Tunisia and southeast of the city of Sfax. The Corporation's common shares are traded on the Canadian National Stock Exchange ("CNSX") under the symbol EI.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of January 31, 2012 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's audited financial statements as at and for the year ended December 31, 2011 (the "2011 Audited Financial Statements") prepared under International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. The financial data discussed in this MD&A, including financial data relating to comparative periods in the prior year, has been prepared in accordance with IFRS, unless otherwise specified (see *"IFRS Adoption"*).

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, risks associated with foreign operations, currency fluctuations, exploration and development risks, reliance on key personnel and management, the ability to access sufficient capital from internal and external sources, risks relating to the abandonment of operations, risks of not being able to obtain or renew permits and licenses, environmental risks, competition from other industry participants, and other risk factors discussed or referred to in the section entitled *"Business Risks"* in this MD&A and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what resulting benefits the Corporation will derive. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

GOING CONCERN ASSUMPTIONS

The Corporation's ability to continue its exploration and evaluation activities and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover its operating costs. The 2011 Audited Financial Statements do not give effect to any adjustments which would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The amounts the Corporation may realize on the disposition of its assets or the discharging of its liabilities other than in the normal course of its business may be significantly different than the carrying value of these assets and liabilities as reflected in the 2011 Audited Financial Statements.

IFRS ADOPTION

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

The Corporation's 2011 Audited Financial Statements have been prepared in accordance with IFRS, including comparative amounts relating to the prior year. Included in Note 5 to the 2011 Audited Financial Statements is a detailed description of the differences between Canadian GAAP and IFRS, as they apply to the Corporation. Note 5 also provides a comparison of the Corporation's audited financial statements as at and for the year ended December 31, 2010 prepared using Canadian generally accepted accounting principles, compared with those prepared in accordance with IFRS.

Concurrent with the transition to IFRS, the Corporation completed an assessment of internal controls over financial reporting and information technology systems to ensure compliance with IFRS, both from a transaction level accounting process as well as for the purpose of financial reporting disclosure requirements. Changes to existing procedures were minor and consisted primarily of establishing processes for the more detailed tracking of exploration and evaluation activities that will better facilitate impairment testing, presentation and disclosure under IFRS.

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 its joint venture partner, Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), it had declared a condition of Force Majeure with respect to the Sfax Permit and the 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.

BUSINESS DEVELOPMENTS

Eurogas International is conducting exploration and evaluation programs for oil and natural gas in the shallow Mediterranean waters offshore Tunisia, where it holds a 45% working interest in the Sfax Permit. In 2003, the Corporation entered into a joint operating agreement with APEX, a production sharing agreement with the Tunisian state oil company and a prospecting permit with the Tunisian government. Pursuant to these arrangements, the Corporation and APEX agreed to undertake exploration, evaluation and extraction operations on the Sfax Permit. APEX is the operating partner in the joint venture arrangement.

The Offshore Sfax Exploration Permit

The Sfax Permit, comprising some one million acres, is located within a prolific hydrocarbon fairway extending from offshore Libya, through the Gulf of Gabes, to onshore Tunisia. It is surrounded by producing oil and natural gas fields to the west, north and east, including the producing Ashtart oil field that lies along the southeast boundary. Previous operators drilled and flow tested oil from three separate structures on the Sfax Permit at daily equivalent rates of 600, 1,200 and 1,800 barrels of oil per day. As a result of low oil prices at the time of drilling, these structures were not considered economical and activities were discontinued.

After assessing the three structures drilled by previous operators and after having acquired the prospecting permit, the Corporation and APEX acquired a new 3-D seismic program over approximately 340 km^2 of the Sfax Permit, which provided the Corporation with an improved understanding of the geology.

In 2005, the joint venture partners obtained an exploration permit under the terms of a production sharing contract, the terms of which provide that the joint venture partners share any future hydrocarbon production with the government agency, ETAP (Entreprise Tunisienne d'Activités Pétrolières). The original four year exploration permit commenced on December 9, 2005 and included a commitment to undertake seismic work and to drill an exploration well prior to December 9, 2009. The seismic work was completed and the drilling commitment was fulfilled by the drilling of the REB-3 well on the Ras El Besh prospect.

On January 19, 2009, the Tunisian government approved an extension to the Sfax Permit, extending the original term to December 8, 2011. As a condition of the extension, the joint venture partners committed to drill an exploration well to a required depth during the extension period. On June 23, 2011, the Tunisian government further extended the period of the Sfax Permit to December 8, 2012, with no additional commitment.

The Corporation, on behalf of the joint venture, has directed the reprocessing of approximately 1,280 km^2 of 3-D seismic surveys over the Sfax Permit. Select 2-D seismic lines were also reprocessed, providing the joint venture partners with a combined seismic project that encompasses the entire Sfax Permit. The interpretation and mapping over each of the Ras El Besh, Jawhara, Salloum and Ashtart prospects within the Sfax Permit were completed in the spring of 2011. APEX continues to direct the interpretation and mapping over the Kerkennah Banks. The Corporation and its joint venture partner will use the reprocessed seismic data to evaluate possible courses of action with respect to the drilling of an exploration well to satisfy the drilling obligation associated with the Sfax Permit, which will only be undertaken if the conditions which resulted in the declaration of Force Majeure in January 2011 are alleviated.

Ras El Besh Development Concession

In December 2005, the joint venture partners applied for a development concession over the Ras El Besh prospect within the Sfax Permit. The application was accepted by the Hydrocarbon Commission of the Tunisian government in July 2006. Following commencement of the drilling of the REB-3 well in June 2008, the development concession was gazetted on September 5, 2008. The REB-3 well is recognized by the Tunisian government as the commitment well under the initial term of the Sfax Permit.

Upon completion of drilling and testing of the REB-3 well, the joint venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig. Agreement by the Tunisian government was subject to the reinterpretation and remapping of seismic data, after which the joint venture partners were to determine whether to reenter or abandon the well.

During the fourth quarter of 2010, the joint venture partners determined that sufficient reserves had not been discovered to give commercial viability to the Ras El Besh prospect and therefore concluded that it was appropriate to abandon the REB-3 well and pursue other opportunities within the Sfax Permit. Final approval to proceed with abandonment and site restoration activities was obtained from the Tunisian authorities in December 2011, following which the Corporation and its joint venture partners finalized procurement contracts, secured the necessary operating equipment and commenced the abandonment process. These abandonment and site restoration activities were substantially completed in January 2012. The Corporation estimates that its share of costs associated with the abandonment and site restoration of the REB-3 well is approximately US$1.3 million, of which US$0.4 million was incurred in the fourth quarter of 2011.

During the year ended December 31, 2011, the Corporation incurred exploration and evaluation and technical and administrative costs of $0.2 million (2010 - $0.5 million) related to Ras El Besh development concession, associated primarily with the decision as to whether to reenter or abandon the REB-3 well.

Mobile Offshore Production Unit

The Corporation holds a 45% joint interest in Innovative Production Services Ltd. (“IPS”). IPS holds title to a mobile offshore production unit (“MOPU”), which was originally acquired with the expectation of producing, processing and transporting oil on certain development concessions within the Sfax Permit. The Corporation may consider alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

Agreement with Delta Hydrocarbons B.V.

In 2009, the joint venture partners entered into a farmout option agreement with Delta Hydrocarbons B.V. ("Delta"), pursuant to which Delta would earn a 50% interest in the joint venture, subject to a commitment to spend US$125 million. 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. Delta's entitlement pursuant to the settlement arrangement is conditional on Delta meeting certain obligations as defined in a settlement agreement between Delta and the joint venture partners, including an obligation to fund 50% of abandonment and site restoration costs associated with the REB-3 well and an obligation to fund its share of costs associated with the litigation with Seawolf (see *"The Seawolf Litigation"*), both obligations of which were discharged by Delta in 2011.

The Seawolf Litigation

In 2009, the joint venture partners commenced arbitration proceedings against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited (collectively, "Seawolf") under the rules of the London Court of International Arbitration, seeking damages for misrepresentations and breach of contract in respect of the drilling of the REB-3 well. In May 2010, the joint venture partners reached a settlement with Seawolf 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$3.6 million, including US$1.5 million received in 2011. In the year ended December 31, 2010, the Corporation allocated $2.6 million of expected aggregate settlement proceeds to the Ras El Besh development concession, $0.5 million against costs associated with the MOPU, and the balance of $0.6 million to reduce legal costs incurred as part of the litigation. As the related exploration and evaluation properties were fully impaired (see *"Ras El Besh Development Concession"*), the $2.6 million amount applied to the Ras El Besh development concession was recognized in the Corporation's financial statements as a gain on settlement of litigation.

2011 Expenditures

		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

During the year ended December 31, 2011, the Corporation invested $1.2 million (2010 - $2.0 million) in the Sfax Permit. These expenditures included certain geological and geophysical works deemed necessary to advance the prospects for the Sfax Permit.

Planning for 2012

As part of the Tunisian government's approval to extend the expiry date on the Sfax Permit to December 8, 2012, the joint venture is committed to drilling an exploration well with depth to a specified geological zone prior to such expiry date (see "*Commitments*"). The Corporation has temporarily suspended certain aspects of its 2012 planned business activities pending resolution of the political and civil unrest in Tunisia that caused the declaration of Force Majeure in early 2011. The Corporation's ability to proceed with exploration and evaluation activities, including its drilling commitment, is also significantly dependent on securing the necessary financial resources. The Corporation's current cash resources are insufficient to meet its drilling commitment before the expiry date of the Sfax Permit. The Corporation is considering alternative financing options, including farmout arrangements, debt or equity issuances, or the monetization of certain assets. There can be no assurance that the Corporation will be successful in these initiatives.

RESULTS OF OPERATIONS

The Corporation's current energy project is in the exploration stage and therefore, the Corporation does not generate operating revenues.

Comparison of the year ended December 31, 2011 with the year ended December 31, 2010

During the year ended December 31, 2011, the Corporation incurred a net loss of $2.0 million, or a loss of approximately $0.06 per share. This compares with a net loss of $176 in 2010. The aggregate net loss incurred in 2010 was mitigated by a gain of $2.6 million on settlement of the litigation with Seawolf (see *"The Seawolf Litigation"*).

Expenses during the year ended December 31, 2011 were $2.0 million (2010 - $2.6 million) and included $1.3 million (2010 - $1.3 million) of dividend expense associated with the Corporation's Series A Preference Shares outstanding.

During the year ended December 31, 2011, the Corporation incurred exploration and evaluation expenditures of $0.2 million (2010 - $0.5 million) in respect of the Ras El Besh development concession. The Corporation determined that these expenditures should not be deferred, as they did not result in the discovery of commercially viable reserves.

Advantageous contract negotiations for the leasing of the necessary equipment to complete abandonment and site restoration costs on the REB-3 well resulted in a favourable change to the Corporation's estimated decommissioning liability. Accordingly, during the year ended December 31, 2011, the Corporation recognized a gain from changes in the estimates of its decommissioning liability of $0.1 million (2010 - $0.1 million).

General and administrative expenses incurred during the year ended December 31, 2011 were $0.6 million, a decrease of $0.2 million from general and administrative expenses of $0.8 million incurred in 2010. The decrease is primarily a result of a decline in legal costs associated with the litigation with Seawolf, but also reflects decreased geological and geophysical activities following the Corporation's declaration of Force Majeure.

Interest expense was $27,293 in the year ended December 31, 2011 compared with $24,996 incurred during the prior year. Interest expense includes accretion of $24,053 (2010 - $21,885) associated with the Corporation's decommissioning liability.

Notwithstanding the strengthening of the Canadian dollar against the US dollar towards the latter part of 2011, the Corporation incurred a foreign exchange loss of $24,815 (2010 – loss of $69,390), primarily on amounts receivable pursuant to the litigation with Seawolf, reflecting a weaker Canadian dollar throughout the first three quarters of the current year.

Summary of Quarterly Results

	2011				2010			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Interest and other revenue	$ -	$ -	$ -	$ 21	$ 520	$ 1,103	$ 1,457	$ 2,944
Net (loss) earnings	(302,359)	(509,060)	(526,538)	(676,779)	2,603,141	(588,913)	(877,214)	(1,137,190)
Capital expenditures	284,619	351,788	429,263	357,742	780,599	440,933	681,375	979,753

Comparison of the three months ended December 31, 2011 with the three months ended December 31, 2010

During the three months ended December 31, 2011, the Corporation incurred a net loss of $0.3 million or $0.01 per share compared with net earnings of $2.6 million or $0.08 per share generated in the fourth quarter of the prior year. Prior year results include a $2.6 million gain on settlement of the litigation with Seawolf (see *"The Seawolf Litigation"*).

During the fourth quarter of 2011, the Corporation incurred exploration and evaluation expenditures of $33,256 (three months ended December 31, 2010 - $55,870) in respect of the Ras El Besh development concession. As previously indicated, the Corporation determined that these expenditures should not be deferred, as they did not result in the discovery of commercially viable reserves.

In addition, the Corporation recognized a gain of $0.2 million (three months ended December 31, 2010 – $0.1 million) on favourable changes in the estimates of decommissioning liabilities.

General and administrative expenses were $0.1 million in the fourth quarter of 2011. In the fourth quarter of the prior year, the Corporation reported a net recovery of $0.4 million in general and administrative expenses, reflecting $0.6 million received from the settlement of the litigation with Seawolf. Other general and administrative expenses in the fourth quarter of the prior year were $145,133, and represent an increase of $66,948 from expenses incurred in the fourth quarter of the current year. Consistent with year-to-date results, the decrease in general and administrative expenses reflects decreased levels of geological and geophysical activities following the Corporation's declaration of Force Majeure.

Interest expense for the three months ended December 31, 2011 includes accretion of $6,276 (three months ended December 31, 2010 - $5,253) relating to the Corporation's decommissioning liability.

During the fourth quarter of 2011, the Corporation incurred a foreign exchange loss of $30,014 compared with a loss of $87,929 in the fourth quarter of the prior year. Foreign exchange losses relate primarily to changes in foreign exchange rates between the Canadian and US dollar.

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At December 31, 2011, the Corporation had cash of $0.1 million compared with cash and short term investments of $1.1 million at December 31, 2010. The Corporation's current cash resources are insufficient to meet its planned 2012 business activities. The Corporation is considering alternative financing options, including farmout arrangements, possible debt or equity issuances or the monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these alternatives.

On January 31, 2012, the Corporation established a $2.5 million revolving term credit facility with Dundee Corporation, the Corporation's principal shareholder, to temporarily provide the necessary operating funds to complete abandonment and site restoration costs and meet certain ongoing general and administrative expenses. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%, and are due on demand. 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.

As lender to the Corporation, Dundee Corporation may, at its discretion, require the Corporation to convert all of the amounts outstanding pursuant to the credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of $0.05 per common share. Any issuance of common shares by the Corporation pursuant to these arrangements will require customary approvals, including regulatory approvals.

Series A Preference Shares
The Corporation has issued 32,150,000 Series A Preference Shares with a face value of $32.15 million. The Series A Preference Shares are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The Series A Preference Shares issued by the Corporation rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle Dundee Energy to a fixed preferential cumulative dividend at 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 either the Corporation or Dundee Energy, at any time, at a price equal to their face value of $32.15 million.

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to the redemption of the Series A Preference shares and its entitlement to demand payment of the associated cumulative dividends outstanding. The terms of the Series A Preference Shares and, specifically, the right of retraction by Dundee Energy, expose the Corporation to significant liquidity risk.

The Series A Preference Shares are non-voting except in the event that the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but so long as any dividends on the Series A Preference Shares remain in arrears for more than eight quarters, Dundee Energy is entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of the Corporation. At December 31, 2011, cumulative dividends outstanding on the Series A Preference Shares were $4.4 million (2010 - $3.1 million), representing outstanding dividends for more than eight quarters. However, at December 31, 2011, Dundee Energy had not exercised its entitlement to elect a majority of the Board of Directors of the Corporation.

Common Shares
As at January 31, 2012 there are 31,143,635 common shares outstanding.

COMMITMENTS
As part of the Tunisian government's approval of 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 cost to meet this commitment ranges between US$6 million and US$9 million.

In the event that this 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 furtherance of its obligation.

RELATED PARTY TRANSACTIONS
The Corporation has not entered into any transactions with related parties, other than as described in Note 15 to the 2011 Audited Financial Statements.

BUSINESS RISKS
There are a number of inherent risks associated with the Corporation's activities and with its current and future stages of development. The following outlines some of the Corporation's principal risks and their potential impact to the Corporation. If any of the following risks actually occur, the Corporation's business may be adversely affected and the Corporation's financial condition and results of operations may suffer significantly.

Additional Funding Requirements

The Corporation is currently in the exploration and evaluation stage of its landholdings in Tunisia and, in accordance with accounting requirements, expenditures incurred in these activities are deferred, subject to impairment testing, until such time as the Corporation discovers commercially viable reserves for development and production. The recovery of deferred costs is contingent on the discovery of such commercially viable reserves and future profitable production. The business activities of the Corporation will require substantial amounts of capital in order to execute future exploration and evaluation work.

The Corporation currently has $0.1 million in cash. Subsequent to December 31, 2011, the Corporation established a $2.5 million credit facility with its principal shareholder, Dundee Corporation. Any additional funding required by the Corporation would have to be accessed through debt or equity financings and/or bank borrowings, or through farmout option arrangements. There can be no assurance that such financings or other arrangements would be available to the Corporation. Raising funds by equity financing would result in dilution, possibly substantial, to present and prospective shareholders of the Corporation. Bank borrowings that might be made available to the Corporation are typically determined in part by the borrowing base of the Corporation. The Corporation currently has no revenue sources.

Foreign Operations

The Corporation's operations are subject to special risks inherent in doing business in other countries, particularly Tunisia where the Corporation's oil and natural gas exploration and evaluation activities are currently focused. Foreign operation risks include risks arising out of political uncertainty, the policies of foreign governments, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, and deprivation or unenforceability of contract rights or the taking of property without fair compensation. In particular, the temporary suspension of the Corporation's activities in Tunisia and the declaration of Force Majeure in January 2011 following political and civil unrest in that country, is expected to have a material adverse effect on the Corporation's business activities until such time as business activities resume. Foreign properties, operations and investments may also be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies.

Abandonment of Operations

The Corporation and its joint venture partners have estimated the cost of abandoning the REB-3 well and the Corporation has provisioned for its proportionate share of such expenditures. However, should cost overruns be experienced, or should any of the Corporation's joint venture partners default on their obligation to fund such expenditures, the Corporation's financial condition may be materially affected.

Currency Risk

The Corporation's planned capital expenditures are denominated in several currencies, the most important being the U.S. dollar, while the Corporation's functional and presentation currency is the Canadian dollar. Fluctuations in the rate of exchange may affect the ability of the Corporation to carry out its exploration and evaluation activities. Future costs may be higher than currently envisioned due to unforeseen events such as currency fluctuations. Currency fluctuations will also affect future profits. The Corporation does not currently hedge against foreign currency fluctuations.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks, which even a combination of experience and knowledge, and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. As at the date hereof, the Corporation does not have any properties that have reserves assigned to them within the definitions contained in the Canadian Oil and Gas Evaluation Handbook and the Canadian Securities Administrators National Instrument 51-101. There is no assurance that commercial quantities of oil or natural gas will be discovered or acquired by the Corporation or that, if discovered, will be accessible for extraction or commercially viable for production.

No History of Earnings

The Corporation has no history of earnings with respect to its activities and there is no assurance that the Corporation will receive revenues from its activities in the foreseeable future, if at all. The Corporation has not paid dividends on its common shares in the past and has no plans to pay dividends on its common shares for the foreseeable future.

Reliance on Operators, Management and Key Personnel

The Corporation depends on a number of key consultants and the technical skill of other personnel, the loss of any one of whom could have an adverse effect on the Corporation. The Corporation is not the operator in the energy project in which it currently has an interest. Since the Corporation is not the operator, the Corporation is dependent on the operator for the timing of activities related to its projects and will largely be unable to direct or control the activities of the operator. The Corporation's success is also dependent, in part, upon the performance of its joint venture partner, service providers and consultants. Furthermore, competition for qualified personnel in the oil and natural gas industry is intense. Failure to retain or to attract key personnel with the necessary skills and experience could have a materially adverse impact on the Corporation's growth and profitability. The temporary suspension of the Corporation's activities in Tunisia may impact the Corporation's ability to retain and attract personnel.

Permits and Licenses

In connection with its operations, the Corporation is required to obtain permits, and in some cases, renewals of permits from the authorities in Tunisia. In addition, the Corporation may also be required to obtain licenses and permits from government agencies in other foreign jurisdictions. The ability of the Corporation to obtain, sustain or renew such permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

Further, if permits and licenses or renewals thereof are not issued to the Corporation, or unfavourable restrictions or conditions are imposed on the Corporation's drilling activities, there is a possibility the Corporation will not be able to conduct its business activities as planned. Alternatively, failure by the Corporation to comply with the terms of permits or licenses may result in the suspension or termination of business activities and subject the Corporation to monetary penalties or restrictions. At December 31, 2011, the Corporation's permits in respect of its Tunisian operations were in good standing.

Insurance

Oil and natural gas exploration operations are subject to the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property, and the environment, or could result in personal injury. Oil and natural gas production operations are subject to the risks typically associated with such production activities, including premature decline of reservoirs and the invasion of water into producing formations.

In accordance with industry practice, the joint venture is not fully insured against all of these risks, nor are all such risks insurable. Although the joint venture maintains liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. The events resulting in the declaration of a Force Majeure may also impact insurance rates and deductibles applicable to the Corporation.

Litigation Risk

The legal risks facing the Corporation, its directors, trustees, officers and/or employees include potential liability for violations of environmental laws, health and safety laws, securities laws, damage claims for worker exposure to hazardous substances and for accidents causing injury or death. Litigation risk cannot be eliminated, even if there is no legal cause of action. Although the joint venture maintains liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that legal liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect on its financial condition. The events resulting in a declaration of a Force Majeure may increase the legal risks facing the Corporation.

Equipment and Related Costs

The Corporation's activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. In addition, equipment failures may occur which could result in injuries and/or delays in the Corporation's business activities.

Competition

The oil and natural gas industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for the acquisition of oil and natural gas properties. The Corporation's competitors include companies that have greater financial resources, staff and facilities than those of the Corporation.

Environmental Concerns

The Corporation's activities are subject to environmental legislation in the jurisdictions in which it operates. A breach of such legislation may result in the imposition of fines or other penalties. Should the Corporation be unable to fully remedy the cost of an environmental problem, the Corporation or its operators might be required to suspend operations or enter into compliance measures pending completion of the required remedy. In certain circumstances, the Corporation may be required to obtain approval of environmental impact assessments. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of current activities, a material increase in future compliance costs, or otherwise adversely affect the Corporation's financial condition and results of operations.

Volatility of Commodity Prices and Alternative Fuel Sources

Oil and natural gas prices fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of the Corporation. Political and economic developments around the world can affect world oil and natural gas supply and prices. Any prolonged period of low oil and natural gas prices could result in a decision by the Corporation to suspend or terminate exploration, as it may become uneconomically feasible to explore for and/or produce oil or natural gas at such prices. Competition may also be presented by alternate fuel sources.

Hedging Activities

If the Corporation's exploration activities result in the discovery of commercial quantities of oil or natural gas, the Corporation may, from time to time, enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases.

Accounting Impairment as a Result of IFRS

The Corporation applied the "modified full cost method" of accounting for exploration and evaluation properties on its transition to IFRS. Under this accounting method, 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. 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 the carrying value of a CGU 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.

IFRS requires that management apply certain accounting policies and make certain estimates and assumptions that affect reported amounts in the Corporation's financial statements. The accounting policies may result in non-cash charges to operating results and impairment of net assets in the financial statements. Such non-cash charges and impairment provisions may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the price of the Corporation's common shares.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation, which could result in a reduction of the revenue received by the Corporation.

Potential Conflicts of Interest

Certain of the directors and officers of the Corporation are also directors or officers of companies that are in the same industry as the Corporation, and may therefore compete with the interests of the Corporation. No assurances can be given that opportunities presented to or identified by such board members and officers will be provided to the Corporation.

Taxation

The Corporation may be subject to taxation in the jurisdictions in which it operates. Any changes in tax legislation and practice in these jurisdictions could adversely affect the Corporation.

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying 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.

A summary of the Corporation's significant accounting policies is provided in Note 3 to the 2011 Audited Financial Statements, including a discussion of future changes in accounting standards, interpretations and amendments to existing standards not yet effective which may impact the financial reporting and disclosure of the Corporation. The most critical accounting policies are those that the Corporation believes are the most important in portraying its financial condition and results of operations and those that require the most subjectivity and estimates by management. A summary of critical judgments and estimates made by the Corporation are provided in Note 4 to the 2011 Audited Financial Statements.

CONTROLS AND PROCEDURES

In connection with exemption orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer and the Chief Financial Officer of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the 2011 Audited Financial Statements and in the accompanying MD&A.

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

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

In addition, the Chief Executive Officer and Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in compliance with IFRS.

It should be noted that while the Corporation's Chief Executive Officer and the Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, there are inherent limitations in all internal control systems and no disclosure controls and procedures or internal control over financial reporting will provide complete assurance that no future errors or fraud will occur. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") at *www.sedar.com*.