EUROGAS INTERNATIONAL INC.

FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2010

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 Canadian generally accepted accounting principles, 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 auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review its financial statements and the report of the auditors. 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 auditors, in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

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

(*Signed*)
D. Christopher Hope
Chief Financial Officer

January 28, 2011

Independent Auditor's Report

To the Shareholders of Eurogas International Inc.

We have audited the accompanying financial statements of Eurogas International Inc., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and 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 Canadian generally accepted accounting principles 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 consolidated 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 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, 2010 and 2009 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which indicates that Eurogas International Inc. incurred a net loss of $2.2 million during the year ended December 31, 2010 and, as of that date, its total liabilities exceeded its total assets by $13 million. Eurogas International Inc. does not have sufficient capital resources available to finance its current commitments as they become due. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Eurogas International Inc.'s ability to continue as a going concern.

[Signed]
PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Canada
January 28, 2011

EUROGAS INTERNATIONAL INC.
Balance Sheets

As at		December 31, 2010		December 31, 2009
ASSETS				
Current				
Cash	$	1,055,193	$	185,901
Short term investments (Note 3)		60,755		4,005,040
Accounts receivable		1,537,403		57,461
Prepaids		46,509		77,653
		2,699,860		4,326,055
Oil and natural gas properties (Note 4)		21,470,060		21,175,897
	$	24,169,920	$	25,501,952
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	223,228	$	554,163
Payable to Eurogas Corporation (Note 10)		-		150,882
Asset retirement obligation (Note 5)		1,694,168		-
		1,917,396		705,045
Asset retirement obligation (Note 5)		-		1,602,591
Accrued dividends on Series A Preference Shares (Note 7)		3,095,536		1,809,536
Series A Preference Shares (Note 7)		32,150,000		32,150,000
		37,162,932		36,267,172
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 8)		1		1
Contributed surplus (Note 8)		15,287		9,287
Deficit		(13,008,300)		(10,774,508)
		(12,993,012)		(10,765,220)
	$	24,169,920	$	25,501,952

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

Nature of Operations and Going Concern Assumptions (Note 1)

Commitments (Note 11)

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, 2010 and 2009

		2010		2009
REVENUE				
Interest and other	$	6,024	$	123,543
EXPENSES				
General and administrative		789,738		2,002,475
Dividends on Series A Preference Shares (Note 7)		1,286,000		1,289,727
Depreciation and accretion		91,577		592,094
Interest expense		3,111		1,981
Foreign exchange loss		69,390		117,659
		2,239,816		4,003,936
LOSS FROM OPERATIONS		(2,233,792)		(3,880,393)
NET AND COMPREHENSIVE LOSS FOR THE YEAR	$	(2,233,792)	$	(3,880,393)
NET LOSS PER COMMON SHARE				
Basic and diluted net loss per share (Note 9)	$	(0.07)	$	(0.12)

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

EUROGAS INTERNATIONAL INC.
Statements of Changes in Shareholders' Deficiency
As at and for the years ended December 31, 2010 and 2009

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2008	$ 1	$ -	$ (6,894,115)	$ (6,894,114)
Stock based compensation (Note 8)	-	9,287	-	9,287
Net loss for the year	-	-	(3,880,393)	(3,880,393)
Balance, December 31, 2009	1	9,287	(10,774,508)	(10,765,220)
Stock based compensation (Note 8)	-	6,000	-	6,000
Net loss for the year	-	-	(2,233,792)	(2,233,792)
Balance, December 31, 2010	$ 1	$ 15,287	$ (13,008,300)	$ (12,993,012)

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

EUROGAS INTERNATIONAL INC.
Statements of Cash Flows
For the years ended December 31, 2010 and 2009

	2010	2009
OPERATING ACTIVITIES		
Loss from operations	$ (2,233,792)	$ (3,880,393)
Non-cash items in operations		
Depreciation and accretion	91,577	592,094
Non-cash changes in accrued dividends on Series A Preference Shares	1,286,000	1,289,727
Stock based compensation	6,000	9,287
	(850,215)	(1,989,285)
Changes in non-cash working capital:		
Accounts receivable	11,958	(48,727)
Prepaids	31,144	(77,653)
Accounts payable and accrued liabilities	(330,935)	433,638
	(1,138,048)	(1,682,027)
FINANCING ACTIVITIES		
Changes in amounts due to Eurogas Corporation	(150,882)	7,987,282
	(150,882)	7,987,282
INVESTING ACTIVITIES		
Net proceeds from (investment in) short term investments	3,944,285	(4,005,040)
Proceeds from settlement of Seawolf litigation (Note 4)	1,591,590	-
Investment in oil and natural gas properties	(3,377,653)	(3,549,967)
	2,158,222	(7,555,007)
INCREASE (DECREASE) IN CASH	869,292	(1,249,752)
CASH, BEGINNING OF YEAR	185,901	1,435,653
CASH, END OF YEAR	$ 1,055,193	$ 185,901

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

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTIONS

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 common shares of the Corporation are listed on the Canadian National Stock Exchange under the symbol "EI".

The financial statements have been prepared on a going concern basis, which presumes the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business.

As at December 31, 2010, the Corporation had working capital of $782,464 (2009 – $3,621,010) and had incurred net losses of $2,233,792 (2009 – $3,880,393). Significant doubt exists over the Corporation's ability to meet its current commitments (Note 11) and continue as 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.

The 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 and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the financial statements. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation
The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise specified.

Participation in Joint Ventures
Substantially all of the Corporation's exploration and evaluation activities are conducted jointly with other entities and accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

Use of Estimates
The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are made based on information available as at the date of issuance of these financial statements. Actual results could differ materially from those estimates.

Asset retirement obligations, depreciation, and impairment of oil and natural gas properties are based on estimates of future costs, the probability of discovery of economically viable reserves, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future years on the financial statements could be significant.

Foreign Currency Translation

Foreign currency denominated amounts are translated into Canadian dollars using average rates for the year for items included in the statements of operations, the rates in effect at the balance sheet dates for monetary assets and liabilities included in the balance sheets and historical rates for other items. Translation gains or losses are generally included in the determination of net earnings.

Financial Instruments

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

Short Term Investments

The Corporation's short term investments are classified as "held for trading". Held for trading securities are measured at fair value at the balance sheet date. Both realized and unrealized gains and losses from changes in fair value are recorded in earnings.

Series A Preference Shares

The Corporation classifies its Series A Preference Shares as financial liabilities for reporting purposes as these shares are redeemable for a fixed amount. The Corporation's Series A Preference Shares are carried at amortized cost.

Due to their short term nature, at December 31, 2010 and 2009, the fair value of all other financial instruments approximated their book value.

Exploration and Evaluation Expenditures

The Corporation is currently in the exploration and evaluation stage of its Tunisian land holdings and capitalizes all costs associated with these programs.

The Corporation follows the full-cost method of accounting for exploration and evaluation expenditures whereby all costs related to the exploration of oil and natural gas reserves, including asset retirement costs, are accumulated in geographic cost centres. Costs include lease acquisitions, geological and geophysical expenditures, carrying costs of non-productive properties, equipment costs and that portion of general and administrative expenses directly attributable to exploration and evaluation activities. Proceeds received by the Corporation for the disposal of properties or in farmout arrangements, are normally deducted from the full-cost pool without recognition of a gain or loss. When such a disposal would alter the depreciation rate of the pool by more than 20 percent, a gain or loss would be recognized.

Asset Retirement Obligation

The Corporation recognizes the estimated liability associated with future site reclamation costs in its financial statements. Costs are estimated in consultation with the Corporation's joint venture partners and are based on current costs and technology.

The obligation is initially measured at fair value and subsequently adjusted for the accretion of any discount and any changes to the underlying estimated cash flows. The asset retirement obligation is capitalized to oil and natural gas properties. The Corporation reviews the obligation regularly such that revisions to the estimated timing of cash flows, discount rates and costs will result in an increase or decrease to the asset retirement obligation.

Impairment

The Corporation evaluates the carrying value of its oil and natural gas properties at least annually, or when events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the carrying value of the oil and natural gas properties is assessed not to be recoverable, an impairment loss is recognized.

Revenue Recognition

Interest income is recognized on an accrual basis.

Stock Based Compensation

The Corporation may issue 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 the fair value based method to account for stock based compensation. The value of stock based compensation, as at the date of grant, is recognized over the applicable vesting period as compensation expense, generally with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds received, together with the amount in contributed surplus, are added to common share capital.

Income Taxes

The Corporation's Tunisian project is in the pre-development stage and capitalized costs to date will be available as deductions for income tax purposes in their jurisdiction once commercial operations commence.

The Corporation follows the asset and liability method to provide for income taxes on all transactions recorded in the financial statements. The asset and 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. Future income tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

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.

Comparative Figures

Certain comparative figures have been reclassified to conform with current period financial statement presentation.

3. SHORT TERM INVESTMENTS

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 (2009 - $4,000,000). Unrealized appreciation in the fair value of short term investments at December 31, 2010 was $755 (2009 – $5,040).

4. OIL AND NATURAL GAS PROPERTIES

For the year ended December 31,		2010		2009
Balance January 1,	$	21,175,897	$	17,819,331
Transactions during the year				
Sfax Permit		2,026,079		1,880,051
Ras-El-Besh expenditures, net		(2,084,223)		(81,615)
Mobile offshore production unit "Ocean Patriot", net		352,307		1,558,130
Balance December 31,	$	21,470,060	$	21,175,897

The Corporation is engaged in exploration and evaluation of its landholdings offshore Tunisia, targeting large scale oil and natural gas reserves.

The Corporation entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction operations pursuant to the working interest awarded to them in the 1.0 million acre Sfax Offshore Permit (the "Sfax Permit"). APEX is the operating partner in the joint venture arrangement.

The Sfax Permit encompasses numerous prospects and leads, including the Salloum and Jawhara prospects, as well as a development concession granted over the Ras-El-Besh prospect.

On January 19, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension to the Sfax Permit, which extends the primary term to December 8, 2011. As a condition of the extension, the Corporation committed to drill an additional exploration well on the Sfax Permit during the extension period (Note 11).

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

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 the Sfax Permit and the Ras-El-Besh ("REB-3") concession in Tunisia. Under the farmout option agreement, Delta had acquired a 50% interest in the Sfax joint venture and related contracts in exchange for expending US$125 million. Capital expenditures during the period of the farmout option agreement were substantially funded by Delta pursuant to its spending commitment.

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

Payments to Delta pursuant to the settlement agreement may include a share of the proceeds from the cost oil portion of any future production revenues realized from the Sfax Permit and the Ras-El-Besh development concession and a share of the proceeds from any sale or lease of the MOPU. Furthermore, Delta remains committed to fund 50% of any costs associated with certain retirement obligations until December 9, 2011.

Capital expenditures, during the period of the farmout agreement, were funded directly by Delta pursuant to its spending commitment. Subsequent to the reassignment of Delta's participating interest, the Corporation's participating interest in the Sfax Permit, the Ras-El-Besh development concession and IPS was 45% and APEX's participating interest was 55%. Accordingly, the Corporation is responsible for 45% of ongoing capital expenditures related to these activities.

Arbitration 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 a well on the REB-3 concession. In May 2010, the parties reached a settlement agreement that provides for a US$12 million payment to the joint venture over an 18 month period. The settlement amount is secured by a letter of guarantee issued by a recognized international bank.

During the year ended December 31, 2010, the Corporation received cash of $2,131,001 (US$2,090,483) and recognized further amounts receivable of $1,491,900 (US$1,500,000), as its share of the expected settlement proceeds. The Corporation recorded $3,083,490 of the proceeds as a reduction in the carrying value of the Corporation's interest in oil and natural gas properties, including $2,579,216 against Ras-El-Besh expenditures and $504,274 against costs associated with the MOPU.

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

5. ASSET RETIREMENT OBLIGATION

For the year ended December 31,		2010		2009
Balance January 1,	$	1,602,591	$	1,202,068
Revisions to estimated cash flows		-		313,897
Accretion		91,577		86,626
Balance December 31,	$	1,694,168	$	1,602,591

Upon completion of drilling and testing the REB-3 well within the Ras-El-Besh prospect and the associated development concession, the joint venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig. The joint venture must either abandon or re-enter the REB-3 well within certain timeframes, as outlined by the Tunisian government.

The joint venture has estimated that the aggregate costs required in the event of abandonment of the REB-3 well is between US$5.5 million and US$10 million. The Corporation has recorded an asset retirement obligation in respect of its share of the obligation to abandon the REB-3 well.

The key assumptions for the carrying amount of the asset retirement obligation include:

- Total estimated undiscounted cash flows at December 31, 2010 of $1,790,978 (2009 - $1,790,978)
- Expected settlement in fiscal 2011; and
- Credit adjusted risk free rate at which the estimated payments have been discounted of 5.7% (2009 – 5.7%).

6. INCOME TAXES

At December 31, 2010, the Corporation had operating loss carry forwards of $2,252,848 (2009 - $3,689,677). A summary of the operating loss carry forwards by year of expiry is as follows:

Year of Expiry:		
2011	$	-
2012		105,694
2013		4,538
2014		206,512
2015		365,745
Thereafter		1,570,359
	$	2,252,848

A valuation allowance has been recorded in respect of the loss carry forwards as management believes it is more likely than not that the future tax asset will not be realized.

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

		2010		2009
Anticipated income tax recovery based on Barbados' statutory income tax rate of 2.5% (2009 - 2.5%)	$	(55,845)	$	(97,010)
Non-deductible expenses		40,578		32,243
Valuation allowance		15,267		64,767
Income tax provision	$	-	$	-

7. PREFERENCE SHARES

The Corporation is authorized to issue an unlimited number of preference shares without nominal or par value. The preference shares may be issued in one or more series.

Series A Preference Shares

The Corporation has issued 32,150,000 Series A Preference Shares with a face value of $32,150,000. The Series A Preference Shares rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle the holder to a fixed preferential cumulative dividend at the rate of 4% per annum. The Series A Preference Shares may be redeemed at the option of the holder or retracted at the option of the Corporation at any time at a price equal to their face value of $1 per Series A Preference Share.

The Series A Preference Shares are non-voting except in the event the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, the holder of the Series A Preference Shares shall be entitled, voting exclusively and separately and as a series, to elect a majority of the members of the Board of Directors of the Corporation. The holder of the Series A Preference Shares has indicated to the Corporation that it has agreed to waive this entitlement through to December 31, 2011.

During the year ended December 31, 2010, the Corporation recognized an expense of $1,286,000 (year ended December 31, 2009 - $1,289,727) in net earnings, representing the dividends accrued on the Series A Preference Shares. The holder of the Series A Preference Shares has indicated to the Corporation that it does not intend to exercise its redemption entitlement until December 31, 2011, and it has also agreed to accept the deferral of the payment of cumulative dividends, of $3,095,536 (2009 – $1,809,536) thereon until December 31, 2011.

8. SHARE CAPITAL

Common Shares Issued and Outstanding

The Corporation is authorized to issue an unlimited number of common shares. At December 31, 2010 and 2009, the Corporation had 31,143,635 common shares issued and outstanding.

	Number of Shares	Capital	Contributed Surplus
Outstanding, December 31, 2008	31,143,635	$ 1	$ -
Transactions during the year ended December 31, 2009			
Stock based compensation	-	-	9,287
Outstanding, December 31, 2009	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

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, 2010, 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.

On June 15, 2009, the Corporation issued 600,000 stock options with an exercise price of $0.10 per option, to directors of the Corporation. One third of the options vested immediately at issuance with the remaining options vesting as to 50% on each of June 15, 2010 and June 15, 2011. The options expire on June 15, 2014. There were no options issued during 2010.

The fair value of the options granted in 2009 was estimated at $0.03 per share using an option-pricing model. The following assumptions were used to determine the fair value of the options on the grant date:

Risk-free interest rate	1.5%
Expected dividend yield	-
Expected volatility	100%
Expected life of option	3 years

At December 31, 2010, the Corporation had 600,000 outstanding options with a weighted average exercise price of $0.10 per option, of which 400,000 options had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life of 3.46 years.

Aggregate stock based compensation expense in respect of these stock option awards during the year ended December 31, 2010 was $6,000 (year ended December 31, 2009 - $9,287).

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 or any affiliate 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.

9. NET LOSS PER SHARE

For the year ended December 31,		2010		2009
Net loss attributable to shareholders	$	(2,233,792)	$	(3,880,393)
Weighted average number of common shares outstanding		31,143,635		31,143,635
Basic and diluted net loss per share	$	(0.07)	$	(0.12)

10. RELATED PARTY TRANSACTIONS

Amounts "Payable to Eurogas Corporation" represent amounts due to Eurogas Corporation, the holder of the Corporation's Series A Preference Shares, are due on demand, are unsecured and are non-interest bearing. There were no amounts owing to Eurogas Corporation at December 31, 2010 (2009 - $150,882).

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation, the principal shareholder of the Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the year ended December 31, 2010, the Corporation incurred costs of $312,587 (2009 - $299,629), in respect of these arrangements.

11. COMMITMENTS

As part of the Tunisian Hydrocarbon Committee's approval of a two-year extension on the Sfax Permit, which extends the primary term to December 8, 2011, the joint venture is committed to drilling one new exploration well to a specified geological zone during the extension period. The actual cost for the exploration well will depend on the selection of the prospect and location within the Sfax Permit. In the event that the joint venture does not complete its work commitments as outlined in the terms of the extension, a compensatory payment of up to US$12 million will be payable to the Tunisian regulatory bodies, less any amounts incurred by the joint venture in respect of the completion of its obligations. The Corporation is also required to complete the abandonment of the REB-3 well. The cost of abandoning the REB-3 well is dependent on the type of rig that will be used and on the costs of mobilizing and demobilizing the rig. The Corporation estimates that its share of the cost to meet these two commitments is US$8.1 million.

12. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 "*Financial Instruments – Disclosures*" requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of financial instruments carried on the balance sheet at fair value. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are 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, 2010, the Corporation's investment in GICs was the only financial instrument carried on the balance sheet at fair value. The investment is short term in nature and is accordingly valued at cost plus accrued interest, which approximates fair value. The Corporation has classified the determination of fair value of the investment as level 2, as the valuation methodology used by the Corporation includes 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 following discussion reviews material financial risks, quantifies certain of the associated exposures, and explains how these risks and the Corporation's capital are managed.

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. The Corporation incurs interest rate risk in its cash and short term investments. In general, for every 50 basis point increase in market interest rates, net earnings before income taxes would increase by approximately $7,200 and conversely, a 50 basis point decrease in market interest rates would decrease net earnings before income taxes by $5,900.

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, 2010, the Corporation's exposure to currency risk was minimal.

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.

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 funding through debt, joint venture opportunities or equity issuances.

At December 31, 2010, the Corporation had cash of $1,055,193 and short term investments of $60,755. Management is contemplating various alternatives for raising additional cash needed to meet the Corporation's current obligations and commitments as they become due (Note 1 and Note 11).

The Corporation also has Series A Preference Shares that are redeemable at the Corporation's option and retractable at the option of the holder. These Preference Shares have been appropriately classified as a financial liability and therefore are subject to liquidity risk. While there are no restrictions on either the redemption or retraction of these Preference Shares, the holder has informed the Corporation that it does not intend to exercise its right of redemption of the Series A Preference Shares prior to December 31, 2011.

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.

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 exploration activities of its oil and gas assets. 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.

13. FUTURE ACCOUNTING DEVELOPMENTS

In February 2008, the AcSB affirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The implementation of IFRS will apply to the Corporation's interim and annual financial statements beginning on January 1, 2011, including the restatement of comparative amounts for 2010. As a result, the Corporation will publish its first financial statements, prepared in accordance with IFRS, for the quarter ended March 31, 2011.

While IFRS standards are premised on a conceptual framework similar to Canadian GAAP, there are differences in the areas of recognition, measurement and disclosure that may materially impact the Corporation's financial statements. The Corporation is participating in the IFRS implementation committee of its parent company and it has completed an assessment to identify the key accounting differences between Canadian GAAP and IFRS. Based on existing IFRS standards, significant differences to Canadian GAAP that may materially impact the Corporation's financial results include, but are not limited to, accounting for oil and gas assets and impairment of assets.

14. SUBSEQUENT EVENT

On January 18, 2011, the Corporation announced that, together with APEX, it has declared a condition of Force Majeure with respect to the Sfax Permit and Ras-El-Besh concession located offshore Tunisia. The Corporation and APEX believe that the current political uncertainty and civil unrest in Tunisia, which have resulted in the collapse of the government, a declaration of a state of emergency and serious civil disturbance, adversely affects their ability to continue their exploration and evaluation activities in Tunisia. The Corporation believes that the declaration of a Force Majeure will allow the Corporation and APEX to temporarily suspend their activities, while the conditions resulting in the Force Majeure continue. It is anticipated that the Force Majeure declaration will result in an extension of the term of the Sfax Permit and Ras-El-Besh concession for a period of time equivalent to the time that activities were suspended as a result of the Force Majeure. Once the situation in Tunisia is resolved, the Corporation and APEX will resume their exploration and evaluation activities.