EUROGAS INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and 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 28, 2011 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, 2010 (the "2010 Audited Financial Statements"). All amounts are in Canadian dollars unless otherwise specified. Financial data has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise specified.

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, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources, 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 2010 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 and at amounts different from those reflected in the 2010 Audited Financial Statements.

RECENT EVENTS

On January 18, 2011, the Corporation announced that, together with its joint venture partner, Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), it has declared a condition of a 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. Eurogas International 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.

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 offshore 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 gas fields to the west, north and east, including the 400 million barrel 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 612, 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, including the known Ras-El-Besh and Jawhara prospects that tested oil. The seismic data provided an improved understanding of the geology.

During 2005, the prospecting permit was converted to an exploration permit under the terms of a production sharing contract, whereby the joint venture partners share the hydrocarbon production with the government agency, ETAP (Entreprise Tunisienne d'Activités Pétrolières). The terms of the production sharing contract provide that the joint venture's share of production will vary with production rates and payout of capital expenditures. Royalties and taxes will be paid out of ETAP's share of production. The four year exploration permit commenced December 9, 2005 and included a commitment to undertake seismic work and to drill one exploration well prior to December 9, 2009. The seismic was completed and the drilling commitment was fulfilled by the drilling of the Ras-El-Besh structure (see *"Ras-El-Besh Concession"*). 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 joint venture committed to drill an additional exploration well to a required depth during the extension period.

On behalf of the joint venture, the Corporation is overseeing the reprocessing of four 3-D seismic surveys on the Sfax Permit. The 340 km^2 seismic program over the Ras-El-Besh and Jawhara oil prospects, which was acquired in 2004, was completed and mapping finalized. In 2007, and under a previous third-party farmout arrangement, the Corporation acquired a 460 km^2 3-D seismic program over the Kerkennah Banks, with all costs having been funded

by the farmout party. The Corporation subsequently participated at its 45% working interest level in the acquisition of a 60 km^2 3-D seismic program over the Salloum structure.

The Corporation completed the reprocessing of these two seismic programs and interpretations have commenced. The older Ashtart 3-D survey has been reprocessed. Selected 2-D seismic lines have also been reprocessed to support the mapping of prospects and leads on the Sfax Permit. The Corporation, together with its joint venture partner, is currently using the reprocessed data to remap the prospects and leads in order to determine a future course of action with respect to the drilling of an exploration well to satisfy the outstanding drilling obligation.

Ras-El-Besh Concession

In December 2005, the Corporation and APEX applied for a development concession over the Ras-El-Besh ("REB-3") prospect within the Sfax Permit. The application was accepted by the Hydrocarbon Committee of the Tunisian government in July 2006. Following commencement of drilling on the REB-3 well on June 16, 2008, the 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, which ended on December 9, 2009.

The REB-3 well reached total depth of 2,204 metres. Well logs and formation pressure tests identified the presence of oil in a 10-metre thick carbonate interval in the Reineche formation. This was subsequently confirmed by down-hole sampling. The well was plugged back and drilled horizontally to 3,284 metres. The sidetrack intercepted the top of the Reineche formation in a lower fault block located 1,000 metres to the northwest of the REB-3 well, then drilled horizontally through 400 metres of porous formation. The horizontal section was tested and produced over 1,000 barrels per day of water and oil with a 10% cut of 27° API oil.

Upon completion of drilling and testing 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 to either reenter or abandon the well. During the fourth quarter of 2010, the joint venture concluded that it was appropriate to abandon the well. Work is expected to begin in the first quarter of 2011, with completion expected in the fourth quarter of the year (see *"Work Program for 2011"*).

Mobile Offshore Production Unit

The Corporation holds an interest in a mobile offshore production unit ("MOPU") through its 45% investment in Innovative Production Services Ltd., which was acquired with the expectation of producing, processing and transporting oil on certain development concessions on the Sfax Permit. The joint venture partners are currently evaluating alternative usage of the MOPU, including actively seeking opportunities for monetization of the asset through a possible sale or lease arrangements.

Agreement with Delta Hydrocarbons B.V.

In a prior year, the joint venture entered into a farmout arrangement 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 this farmout arrangement and, under a settlement agreement, Delta reassigned its 50% participating interest to APEX and the Corporation. In exchange, Delta is entitled to a portion of certain payments, if and when received by the joint venture, including a share of the proceeds from the cost oil portion of any future production revenues from the Sfax Permit and a share of the proceeds from any sale or lease of the MOPU, to a maximum of US$20 million.

Delta's entitlement pursuant to the settlement agreement is conditional on Delta meeting its obligations as defined in the settlement agreement, including Delta's commitment to fund 50% of any costs associated with abandonment of the REB-3 well (see *"Ras-El-Besh Concession"*) until December 9, 2011, as well as to fund its pro-rata share of ongoing costs associated with the litigation with Seawolf (see below).

The Seawolf Litigation

In 2009, APEX, on behalf of 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 on the Ras-El-Besh 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 $2.1 million (US$2.1 million) and recognized further amounts receivable of $1.5 million (US$1.5 million), as its share of the expected settlement proceeds. The Corporation recorded $3.1 million of the proceeds as a reduction in the carrying value of the Corporation's interest in oil and natural gas properties, including $2.6 million against Ras-El-Besh expenditures and $0.5 million against costs associated with the MOPU.

In addition, the Corporation applied $0.6 million of the proceeds to reduce legal expenses funded by the Corporation on behalf of Delta.

2010 Expenditures - Tunisian Asset Pool

The Corporation's proportionate share of costs associated with the Sfax Permit are capitalized as part of its exploration and evaluation activities. During 2010, an aggregate of $3.4 million (2009 - $3.4 million) was capitalized to the Tunisian asset pool, including Ras-El-Besh expenditures and expenses relating to the renovation and upgrade of the MOPU. Capitalized amounts were reduced by $3.1 million relating to the settlement of the litigation with Seawolf.

	2010				2009
For the year ended December 31,	Cash Expenditures	Seawolf Settlement Proceeds	Seawolf Settlement Outstanding	TOTAL	TOTAL
Opening balance				$ 21,175,897	$ 17,819,331
Transactions during the year					
Sfax Permit	2,026,079	-	-	2,026,079	1,880,051
Ras-El-Besh expenditures, net	494,993	(1,087,316)	(1,491,900)	(2,084,223)	(81,615)
Mobile offshore production unit "Ocean Patriot"	856,581	(504,274)	-	352,307	1,558,130
Closing balance				$ 21,470,060	$ 21,175,897

Work Program for 2011

In the fourth quarter of 2010, the joint venture submitted its proposed 2011 work program for the Sfax Permit and the Ras-El-Besh development concession for approval by ETAP. Aggregate expenditures in 2011 are estimated at approximately US$25 million, of which the Corporation is responsible for its net share of approximately US$8.1 million.

Included in the 2011 work program is an estimated US$10.9 million relating to the costs of abandoning the REB-3 well. The actual costs of abandonment will depend on several factors, including the mobilization and demobilization costs of a rig. The Corporation currently estimates that its share of these costs will be approximately US$1.8 million.

The remaining costs in the 2011 work program relate to the assessment of prospects and drilling of an exploration well to satisfy the commitment required in order to retain the joint venture's interest in the Sfax Permit. The joint venture will complete geological, geophysical and engineering analyses to evaluate both the Salloum and Jawhara oil prospects as future drilling candidates. The Salloum structure is located in the northeast corner of the Sfax Permit in shallow waters adjacent to the city of Sfax and is adjacent to two producing oil fields that produce from the same targeted formation. Geotechnical studies indicate that the prospect may be drilled from an onshore location. The Jawhara structure is located in the center of the Sfax Permit in approximately 28 metres of water. Seismic interpretation has identified a large north south elongated structure with the Cretaceous Bireno formation being the primary prospect. Costs relating to these activities, including costs of drilling, are estimated at US$14.1 million, of which the Corporation's expected share is US$6.3 million. The success of the 2011 work program is dependant on the ability of the Corporation to establish firm financing arrangements.

RESULTS OF OPERATIONS

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

For the year ended December 31, 2010 compared with the year ended December 31, 2009

During 2010, the Corporation incurred a net loss of $2.2 million, or a loss of approximately $0.07 per share. This compares with a net loss of $3.9 million, or a loss of $0.12 per share in 2009.

Revenue in 2010 was $6,024 and consisted primarily of interest earned on the Corporation's cash and short term investments. Revenue in the prior year was $123,543. The decrease in revenue reflects lower levels of cash and short term investments.

Expenses incurred during 2010 were $2.2 million, net of $0.6 million in legal costs recovered from Delta in connection with the Seawolf settlement (2009 - $4.0 million). Expenses include $1.3 million (2009 - $1.3 million) associated with the Corporation's Series A Preference Shares outstanding.

General and administrative expenses incurred during 2010 were $0.8 million, a decrease of $1.2 million over general and administrative expenses of $2.0 million in 2009. The decrease is primarily a result of a decline in legal costs following settlement of the litigation with Seawolf.

Depreciation and accretion expense during 2010 was $0.1 million (2009 - $0.6 million) and included amounts related to the MOPU and to the reclamation costs associated with the REB-3 well.

For the three months ended December 31, 2010 compared with the three months ended December 31, 2009

During the three months ended December 31, 2010, and as a result of the recovery of $0.6 million in legal expenses from the settlement of the litigation with Seawolf, the Corporation earned income of $7,743. This compares with a net loss of $1.2 million incurred during the three months ended December 31, 2009.

Interest revenues earned during the three months ended December 31, 2010 were $520 compared with interest revenues of $4,273 earned in the same period of the prior year. Consistent with the decrease in year-over-year interest revenues, this decrease reflects lower levels of cash and short term investments.

General and administrative expenses before the reduction in legal expenses were $0.1 million in the fourth quarter of 2010, compared to $0.8 million in general and administrative costs incurred in the comparative period of the prior year. The decrease is primarily due to a decline in legal costs associated with the litigation with Seawolf. Depreciation and accretion costs in the fourth quarter of 2010 were $22,894 compared to $148,133 for the comparative period of the prior year.

Earnings in the fourth quarter of 2010 were adversely affected by a foreign exchange loss of $87,929 as the Canadian dollar strengthened against the US dollar. In comparison, in the fourth quarter of the prior year, the Corporation benefitted from a foreign exchange gain of $25,516.

SUMMARY OF QUARTERLY RESULTS

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Interest income	$ 520	$ 1,103	$ 1,457	$ 2,944
Net income (loss)	7,743	(581,369)	(700,750)	(959,416)
Capital expenditures*	836,469	509,547	806,629	1,225,008

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Interest income	$ 4,273	$ 22,805	$ 47,893	$ 48,572
Net income (loss)	(1,215,629)	(1,062,975)	(868,837)	(732,952)
Capital expenditures	267,381	955,258	1,856,847	277,080

* *Capital costs in the fourth quarter of 2010 are before adjustments of $3.1 million relating to settlement of the litigation with Seawolf.*

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At December 31, 2010, the Corporation had cash and short term investments of $1.1 million compared with cash and short term investments of $4.2 million at December 31, 2009. The Corporation's current cash resources are insufficient to meet its planned 2011 work program. The Corporation is actively pursuing alternative financing options, including debt or equity issuances, potential farmout arrangements, and monetization of certain assets. There can be no assurance that the Corporation will be successful in these initiatives.

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 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 Eurogas Corporation, as the holder thereof, 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 either the Corporation or Eurogas Corporation, at any time, at a price equal to their face value of $32.15 million. Eurogas Corporation has indicated that it does not intend to exercise its redemption entitlement until December 2011.

In August 2009, Eurogas Corporation approved a request by Eurogas International to defer entitlement to payment of the cumulative 4% cash dividends payable on the Series A Preference Shares and entitlement to receive payment once such dividends are declared, until December 31, 2011. Eurogas Corporation may, if requested by Eurogas International, reinvest any such dividends received in cash into common shares of the Corporation, subject to regulatory approval.

Common Shares

As at January 28, 2011 there are 31,143,635 common shares outstanding.

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.

RELATED PARTY TRANSACTIONS

Other than those described in Note 10 to the financial statements of the Corporation as at and for the years ended December 31, 2010 and 2009, there are no other material related party transactions.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities and with its current stage of exploration. 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 harmed and the Corporation's financial condition and results of operations may suffer significantly.

Foreign Operations

The Corporation's operations are subject to special risks inherent in doing business in other countries, including Tunisia. These risks may involve matters arising out of the policies of foreign governments, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, civil disturbances 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 a Force Majeure resulting from political unrest described under "Recent Events" above, may have a material adverse effect upon the Corporation's Tunisian operations until such time as operations resume. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, political uncertainty and civil unrest, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies as well as bylaws and policies of Canada affecting foreign trade, investment and taxation.

The Corporation's planned capital expenditures are denominated in several currencies, the most important being the Euro and the U.S. dollar, while the Corporation's reporting currency is the Canadian dollar. Fluctuations in the rate of exchange may affect the ability of the Corporation to carry out its exploration and development programs. Future development 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 actively hedge against foreign currency fluctuations. The Corporation's operations are also subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, taxes and labour standards.

Exploration, Development and Production Risks

Oil and 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 ("COGE") 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.

Oil and gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field-operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Current political uncertainty and civil unrest in Tunisia may adversely affect the Corporation's ability to continue its exploration, evaluation and development activities.

No History of Earnings

The Corporation has no history of earnings with respect to its activities, and there is no assurance that any of its material properties will generate earnings, operate profitably or provide a return on investment in the future. 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's business activities rely on the technical skill of the personnel involved. The Corporation is not the operator in the energy project in which it currently has an interest. To the extent that the Corporation is not the operator, the Corporation will be dependent on such operator for the timing of activities related to such projects and will largely be unable to direct or control the activities of the operator. The Corporation's success will also be dependent, in part, upon the performance of its joint venture partner, key managers, service providers and consultants. Furthermore, competition for qualified personnel in the oil and natural gas industry is intense. Failure to retain the managers and consultants, or to attract or retain additional key personnel with the necessary skills and experience, could have a materially adverse impact upon 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, particularly if the suspension continues for a sustained period.

Additional Funding Requirements

The business and operations of the Corporation may require substantial additional capital in order to execute any further exploration and development work. This may include establishing farmout arrangements to finance future exploration as required under the permit extension to December 2011.

The Corporation currently has $1.1 million in cash and short term investments. Any additional funding required from the Corporation would have to be accessed through debt or equity financings and/or bank borrowings, and there can be no assurance that such funding or borrowings would be available to the Corporation. In addition, 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 material revenue sources. The Corporation will need further development of its project to establish a borrowing base, based on proven reserves.

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 it will not be able to conduct its operations as planned. Alternatively, failure by the Corporation to comply with the terms of permits or licenses might result in the suspension or termination of operations and subject the Corporation to monetary penalties or restrictions on operations. At December 31, 2010, the Corporation's permits in respect of its Tunisian operations were in good standing.

The Corporation anticipates that the declaration of a Force Majeure 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 the activities were suspended. However, not receiving such extension could have a material adverse effect on the Corporation.

Insurance
Oil and natural gas exploration operations are subject to all 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 in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation will maintain 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. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations. The events resulting in the declaration of a Force Majeure may 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. It is also possible that litigation and in particular, class action litigation, may increase in Canada as a result of the introduction of the secondary market civil liability regime. Litigation risk cannot be eliminated, even if there is no legal cause of action. Although the Corporation 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 limited 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 exploration and development delays.

Competition
The petroleum 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 oil companies that have greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to find, and in the future increase reserves, will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploration and evaluation. Competitive factors in the distribution and marketing of oil and natural gas include price and reliability of the methods of delivery.

Regulatory
Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government (domestic and foreign) and may be amended from time to time. The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects. Given the events resulting in the declaration of a Force Majeure, there can be no assurance that the Corporation will be able to resume operations under its current licenses and permits or extend operations when such licenses and permits expire.

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 or a material increase in the future costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition or 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 properties produce 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 Write-downs as a Result of GAAP
The Corporation uses the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows. To the extent that such capitalized costs (net of accumulated depreciation and depletion) less future taxes, exceed the present value of estimated future net cash flows from the Corporation's proved oil and natural gas reserves, those excess costs would be required to be charged to operations.

Canadian GAAP requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in our financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs 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 producing 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 of the Corporation are also directors or officers of companies that are in competition to the interests of the Corporation. No assurances can be given that opportunities identified by such board members 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.

ACCOUNTING POLICIES AND ESTIMATES

This management's discussion and analysis of the Corporation's financial condition and the results of its operations are based upon the financial statements of the Corporation. These statements have been prepared in accordance with Canadian GAAP. The preparation of these financial statements requires the Corporation to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making 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 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 our significant accounting policies applied during 2010 are included in Note 2 to the 2010 Audited Financial Statements. Some of the more significant judgments and estimates made by management are as follows:

Recoverability of Exploration and Evaluation Activities

The Corporation is required to review the carrying value of oil and natural gas properties for potential impairment. Impairment is indicated if the carrying value of the Corporation's oil and natural gas properties is not recoverable. If impairment is indicated, the amount by which the carrying value of oil and natural gas properties exceeds their estimated fair value is charged to earnings.

Impairment during the exploration and evaluation phase is based on an assessment of certain factors 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.

Asset Retirement Obligations

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 removal and site restoration costs involves a number of estimates relating to timing of abandonment, costs associated with the abandonment and site restoration, 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. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Future tax assets and liabilities are booked using substantively enacted future income tax rates which include rate reductions over several years.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Canadian Institute of Chartered Accountants' Accounting Standards Board (the "Canadian AcSB") confirmed 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. IFRS uses a conceptual framework similar to Canadian GAAP. However, there may be significant differences in certain matters of recognition, measurement and disclosure that may materially impact the Corporation's financial statements.

The following disclosure provides a comprehensive discussion of the key standards under IFRS that management believes will have the most significant impact to the Corporation's financial statements, as well as the impact of these key standards to the Corporation's statement of financial position as at January 1, 2010 (the "Transition Date"). **The quantification of the amounts that resulted from the differences between Canadian GAAP and IFRS relating to these key standards, where identified below, are based on management's estimates and decisions, and are subject to further internal review and audit by the Corporation's external auditors.**

Analysis of IFRS Accounting Policies Affecting the Corporation

IFRS 1: First-time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1. While IFRS 1 includes a number of optional exemptions, the following discussion addresses only those that have been elected by the Corporation in the preparation of its opening statement of financial position as at the Transition Date:

- *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 assets at the amount determined under previous GAAP and (b) assets in the development or production phases at the amount determined under previous GAAP, allocated to the underlying assets pro rata using reserve volumes or reserve values as of that date. As the Corporation's oil and gas activities are in the exploration and evaluation stage, it will continue to carry these assets at their previous cost, subject to impairment testing under IAS 36 (see below).

- *Share-based payments* – Under IFRS 1, a first-time adopter is not required to apply *IFRS 2: Share-based Payments* to equity instruments granted on or before November 7, 2002 or granted after November 7, 2002 but vested at the date of transition. The Corporation elected this exemption and will only apply IFRS 2 to those equity instruments that include not-vested tranches as at January 1, 2010. On completion of its analysis, the Corporation concluded that the difference in share-based compensation expense under Canadian GAAP and IFRS is nominal and accordingly, there are no adjustments relating to stock-based compensation on the Transition Date.

IFRS 6: Exploration and Evaluation of Mineral Resources
As permitted by IFRS 6, the Corporation elected to adopt the "modified full cost" method to account for its exploration and evaluation activities. Exploration and evaluation activities include those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Consistent with Canadian GAAP, these costs will be capitalized under IFRS.

In completing its assessment of costs previously included in the Corporation's balance sheet as oil and gas assets associated with Tunisian operations, 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 on the Sfax Permit. As this is a tangible asset, its carrying value is segregated from exploration and evaluation assets and reclassified to property, plant and equipment.

In segregating the costs associated with the MOPU from other oil and gas assets under IFRS, the Corporation allocated proceeds received as part of its farmout arrangements with Delta, generating a gain of $4.5 million. Under Canadian GAAP, the gain was reflected as a reduction in the carrying value of the Tunisian asset pool. Accordingly, on the Transition Date, the Corporation will decrease its deficit by $4.5 million, with a corresponding increase to exploration and evaluation activities.

Subsequent capitalized expenditures incurred in respect of the MOPU, which aggregated $1.1 million at January 1, 2010, will be included in property, plant and equipment, with a corresponding decrease to exploration and evaluation assets.

IAS 36: Impairment of Assets
Under Canadian GAAP and full cost accounting, impairment testing of exploration and evaluation assets was performed on the basis of expected recoverability of costs in each geographic area. The Corporation has finalized its analysis of impairment testing in compliance with the requirements of IAS 36. For purposes of impairment testing, IFRS requires that exploration and evaluation assets be segregated into cash generating units ("CGUs") which are defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Corporation has determined that costs included in its Tunisian asset pool may be segregated into three separate CGUs including (i) costs associated with exploration and evaluation activities conducted onshore; (ii) costs associated with the REB-3 exploration well located within the Ras-El-Besh concession; and (iii) exploration and evaluation activities conducted offshore.

Following a detailed analysis of impairment indicators as outlined in IFRS 6, the Corporation will recognize an impairment of $15.2 million and $6.8 million in costs associated with exploration and evaluation activities conducted onshore and costs associated with the REB-3 well, respectively. Accordingly, on the Transition Date, the Corporation will reduce the carrying value of its exploration and evaluation assets by $22.0 million, with a corresponding increase in its deficit.

Canadian GAAP does not permit the reversal of impairment losses. Under IFRS, an asset impairment loss may be reversed in subsequent periods if there has been a change in the estimates used to determine the net recoverable amount of the asset.

IFRS 2: Share-based Payments
Equity-settled share-based payments are measured at grant-date fair value under both IFRS and Canadian GAAP. However, there are differences related to the timing of expense recognition under the respective standards that impact the Corporation's share-based payment programs. The Corporation has identified the specific differences in accounting for share-based payments under IFRS and amended its share-based payment models. Following the quantification exercise, the Corporation concluded that the impact on its financial statements upon transition to IFRS is nominal and accordingly, there are no adjustments relating to stock-based compensation on the Transition Date.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets
Under IFRS terminology, asset retirement obligations are referred to as decommissioning liabilities. Accounting for decommissioning liabilities falls under the requirements of IAS 37. Under IFRS, both constructive and legal obligations must be assessed in determining the amount of the decommissioning liability. While only legal obligations were required under Canadian GAAP, constructive obligations were also permitted. 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. Under IFRS, the Corporation will be required to re-measure its decommissioning liability in order to recognize market interest changes in the discount rate as at each period end. Under Canadian GAAP, the existing present value of the estimated liability does not require subsequent adjustment for market interest changes in the discount rate. IFRS requires that the Corporation review the carrying amount of its decommissioning liability at each balance sheet date and adjust to reflect the current amount that the Corporation would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date. Typically, this is reflected by applying the current risk free interest rate as the appropriate discount rate in determining the value of the decommissioning liability.

Furthermore, IFRS requires the translation of decommissioning liabilities that are denominated in foreign currencies at current foreign exchange rates at each period end. Under Canadian GAAP, decommissioning liabilities that were denominated in foreign currencies were translated at the historic rate with no subsequent adjustment for current foreign exchange rates.

In accordance with IFRIC 1: Changes in Decommissioning Liabilities, Restoration and Similar Liabilities, the effect of any changes to an existing 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 asset. However, on initial transition to IFRS, and in order to mitigate the depletion effect of a change in the carrying value of the associated asset, IFRIC 1 permits the effect of changes in the discount rate as required by IFRS to be recorded as an adjustment to opening retained earnings at the Transition Date.

The Corporation has completed the calculation of its decommissioning liability using a market interest rate and current foreign exchange rate appropriate as at the Transition Date. Its decommissioning liability has accordingly been decreased by $0.1 million, with a corresponding decrease in its deficit.

Internal Controls and Information Technology Systems
The impact on internal controls and information technology systems continues to be assessed in light of changes in both transaction-level accounting policies and changes in financial reporting disclosure requirements. Required changes identified to date are limited to the more granular tracking of oil and gas assets that will be required to address impairment testing and presentation and disclosure under IFRS. Management anticipates only minor updates to its internal controls and information technology systems to accommodate these changes.

Financial Reporting Expertise
The personnel involved in the conversion process and those with ongoing financial reporting responsibilities continue to attend educational training sessions.

Next Steps
Having completed its assessment of the effects of IFRS to its opening balance sheet on the Transition Date, the Corporation is now in the process of ensuring the accurate restatement of its interim and annual financial statements as at and for the year ended December 31, 2010. The Corporation is also actively engaged in the determination of disclosures appropriate under IFRS.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators' National Instrument 52-109, the Corporation has filed certificates signed by the Chief Executive Officer and Chief Financial Officer certifying that, among other things, the design of disclosure controls and procedures and the design of internal control over financial reporting are adequate. The financial disclosure controls and procedures provide reasonable assurance that material financial information has been duly disclosed by the Corporation. Furthermore, internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with Canadian GAAP in its financial statements.

The Chief Executive Officer and Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. No changes were identified during their evaluation.

It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. 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*.