2015 Management's Discussion and Analysis and Financial Statements

EUROGAS INTERNATIONAL INC.

EUROGAS INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and natural gas exploration company targeting oil and natural gas reserves. Eurogas International is incorporated under the *Companies Act* (Barbados), and its common shares trade on the Canadian Securities Exchange ("CSE") under the symbol EI. At December 31, 2015, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% of the issued and outstanding common shares of the Corporation.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of January 28, 2016 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, 2015 (the "2015 Audited Financial Statements") prepared under International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars, unless otherwise specified.

GOING CONCERN ASSUMPTIONS

The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for any such economically recoverable reserves, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation, and the working capital from future profitable production or proceeds from the disposition of assets. The 2015 Audited Financial Statements do not give effect to any adjustments which would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The amounts the Corporation may realize on the disposition of its assets or the discharging of its liabilities in other than the normal course of its business may be significantly different than the carrying value of these assets and liabilities as reflected in the 2015 Audited Financial Statements.

SELECTED FINANCIAL INFORMATION

As at and for the years ended December 31,	2015	2014	2013
Net and comprehensive loss	$ (2,137,799)	$ (9,584,557)	$ (2,073,436)
Basic and diluted net loss per common share	(0.07)	(0.31)	(0.07)
Total assets	321,964	774,180	10,626,625

SFAX OFFSHORE EXPLORATION PERMIT

The Sfax Offshore Exploration Permit

In June 2003, Eurogas International entered into a joint operating arrangement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the Corporation and APEX (jointly, the "Original Contractors") agreed to undertake exploration, appraisal and extraction operations on the Sfax offshore exploration permit (the "Sfax Permit"), which currently covers approximately 800,000 acres in the shallow Mediterranean waters in the Gulf of Gabes, offshore Tunisia and southeast of the city of Sfax. The Corporation held a 45% working interest in the arrangement. APEX held the remaining 55% working interest and was the operator of the project.

Farmout Agreement with DNO Tunisia AS ("DNO")

In January 2014, the Original Contractors completed a farmout agreement with DNO Tunisia AS ("DNO" and the "DNO Agreement") with respect to the Sfax Permit. DNO is a wholly-owned subsidiary of DNO International ASA, an Oslo-listed company with significant expertise in the oil and gas industry across the Middle East and Africa. Under the terms of the DNO Agreement, DNO acquired an 87.5% working interest in the Sfax Permit in exchange for an upfront, non-refundable cash payment of US$6 million to the Original Contractors, of which the Corporation's proportionate share was US$2.7 million.

In addition, and with the approval of the Tunisian authorities, DNO contractually assumed full responsibility for completion of obligations pursuant to the terms of the Sfax Permit, including all drilling obligations and any compensatory payment obligation that may arise as a result of non-compliance. In that regard, DNO has provided a full guarantee to the Tunisian governmental authorities.

Under the terms of the DNO Agreement, the Original Contractors will be entitled to 12.5% of the profit oil or profit gas component of production from the Sfax Permit, to a maximum of US$125 million (or 12.5% of the profit oil or profit gas from the production of 75 million barrel of oil equivalents, whichever comes first). Thereafter, the Original Contractors are entitled to 6.25% of the profit oil or profit gas component of production from the Sfax Permit to a maximum of an additional US$75 million (or 6.25% of the profit oil or profit gas component from the production of an additional 45 million barrel of oil equivalents, whichever comes first). In addition to their entitlement to a share of the profit oil or profit gas, the DNO Agreement also provides the Original Contractors with entitlement to receive 20% of the cost oil or cost gas component of production from the Sfax Permit, to a maximum of the lesser of 18% of the costs incurred by the Original Contractors prior to completion of the DNO Agreement, or US$20 million. The Original Contractors have conceded a temporary deferral of 50% of their entitlement to a share of the profit oil or profit gas component of production from the Sfax Permit, as outlined above, until such time as DNO recovers $150 million of total incurred costs, including costs incurred by DNO subsequent to completion of the DNO Agreement, from the cost oil or cost gas component of production on the Sfax Permit. The Corporation is entitled to 45% of any payments made to the Original Contractors under these arrangements.

In early 2015, DNO completed the drilling of the Jawhara-3 well, the first exploration and appraisal well undertaken by DNO on the Sfax Permit. The Jawhara-3 well was vertically drilled to a total depth of 2,815 metres. The Douleb and Bireno fractured carbonates formations proved to be water bearing in the compartment of the principal structure targeted by the well and therefore, DNO concluded that further analysis of the well's logging and testing results would be required in order to re-evaluate the Jawhara prospect.

In view of these results, DNO reassessed its work plan for 2015 and sought an extension of the first renewal period of the Sfax Permit. In August 2015, DNO received the necessary regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the Sfax Permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017. In addition, the extension requires the acquisition of 700 km of 2-dimensional seismic. As previously indicated, DNO is responsible for all obligations and costs associated with the renewal.

Notwithstanding the approval of the extension of the first renewal period, the current capital markets environment and the associated volatility in the price of oil causes significant uncertainties to the Corporation's determination of possible cash flows from its oil and natural gas activities. Accordingly, the Corporation carries its investment in the Sfax Permit at a cost of $nil as at December 31, 2015.

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2013	$	8,998,774
Transactions during the year ended December 31, 2014		
Investment in exploration and evaluation properties		54,317
Proceeds received as consideration for farmout agreement of Sfax Permit		(2,871,720)
Impairment		(6,181,371)
Carrying value, December 31, 2015 and December 31, 2014	$	-

Agreement with Delta Hydrocarbons B.V. ("Delta")

In prior years, the Original Contractors had entered into a farmout option agreement with Delta pertaining to the farmout of a 50% working interest in the Sfax Permit. Delta subsequently exited from the farmout option agreement and under a settlement agreement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the Original Contractors, to a maximum of US$20 million. Payments to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil or cost gas portion of any future production revenues realized from the Sfax Permit.

INNOVATIVE PRODUCTION SERVICES, LTD. ("IPS")

The Corporation currently holds a 45% interest in IPS. The sole business activity of IPS is the ownership and continuing maintenance of a mobile offshore production unit (the "MOPU"), which was acquired by IPS in May 2007 in expectation of leasing the equipment to affiliated companies to facilitate their producing, processing and transporting of oil and natural gas. The MOPU is currently inactive and is moored in Louisiana, in the United States of America. The Corporation accounts for its investment in IPS using the equity method of accounting.

As a result of a significant downturn in the market price of oil and the associated curbing of exploration and production activities in the oil and natural gas sector, the Corporation has determined that its resources would be better directed to alternative projects. As such, IPS has reduced the carrying value of the MOPU to its estimated recoverable amount of $657,400 (2014 – $930,613), and recognized an associated impairment loss of $273,000 (2014 – $2.7 million). The Corporation's proportionate share in the impairment loss was $122,946 (2014 – $1.2 million) and has been included in the amounts designated as "*Share of loss from equity accounted investment*" in the Corporation's statement of operations and comprehensive loss. The recoverable amount of the MOPU was determined to be its fair value less cost of disposal, and was assessed by reference to the current market for scrap metal, taking into account the costs to break down and cut the MOPU into salvageable components, as well as associated delivery costs to the recycling point.

During the year ended December 31, 2015, the Corporation's share of other costs associated with the MOPU were $245,928 (2014 – $167,109). Costs associated with the MOPU are incurred in U.S. dollars, and therefore were adversely affected by a weakening of the Canadian dollar during 2015. Additionally, in the prior year, costs associated with the MOPU were partially offset by the sale of certain redundant equipment.

RESULTS OF OPERATIONS

Comparison of the year ended December 31, 2015 with the year ended December 31, 2014

During the year ended December 31, 2015, the Corporation incurred a net loss of $2.1 million, or a loss of approximately $0.07 per share. This compares to a net loss of $9.6 million, or a loss of approximately $0.31 per share incurred by the Corporation during 2014. The prior year loss included a $6.2 million impairment loss relating to the Corporation's carrying value in the Sfax Permit, and a further $1.2 million impairment loss relating to the Corporation's investment in IPS, compared with an impairment loss of $122,946 in 2015. The 2015 impairment loss was associated with changes in scrap metal prices and their impact to the Corporation's carrying value in IPS.

The Corporation's net loss during 2015 includes $1.3 million (2014 – $1.3 million) of interest expense associated with dividends payable on the Corporation's Series A Preference Shares outstanding (see *"Liquidity and Capital Resources – Series A Preference Shares")*.

General and administrative expenses incurred during the year ended December 31, 2015 were $315,326. This compares with general and administrative expenses of $614,071 incurred in the prior year. General and administrative expenses in the current year reflects measures taken by the Corporation to reduce corporate and professional fees, as it is no longer actively involved in the Sfax Permit. In addition, general and administrative expenses in the prior year included costs associated with the negotiation and completion of the DNO Agreement as previously discussed.

Interest expense was $182,058 during the year ended December 31, 2015, compared with $178,957 incurred in the prior year. Included in interest expense during the year ended December 31, 2015 is $180,716 (2014 – $177,585) associated with the Corporation's $5.0 million credit facility provided by Dundee Corporation (see *"Liquidity and Capital Resources – Cash Resource Availability")*.

Comparison of the three months ended December 31, 2015 with the three months ended December 31, 2014
During the three months ended December 31, 2015, the Corporation incurred a net loss of $0.6 million, or a loss of $0.02 per share, which includes the previously noted impairment of $122,946 related to its investment in IPS. This compares to a net loss of $7.8 million or a loss of $0.25 per share during the same period of the prior year. The loss incurred during the fourth quarter of the prior year included a $6.2 million impairment loss relating to the Corporation's carrying value in the Sfax Permit, and a $1.2 million impairment loss relating to the Corporation's investment in IPS.

General and administrative expenses incurred during the fourth quarter of 2015 were $57,277, compared with general and administrative expenses of $47,949 incurred during the same quarter of the prior year. General and administrative expenses in the fourth quarter of the prior year were net of a favourable adjustment relating to the cost of service charges provided by Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation.

Summary of Quarterly Results

	2015				2014			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Net loss	$ (604,763)	$ (499,188)	$ (510,913)	$ (522,935)	$ (7,822,636)	$ (545,352)	$ (617,456)	$ (599,113)
Capital expenditures	-	-	-	-	-	-	-	54,317

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability
At December 31, 2015, the Corporation had cash of $26,134, compared with $349,216 at December 31, 2014. The Corporation's current cash resources are insufficient to meet its current obligations, including its obligations pursuant to the terms of the Series A Preference Shares and associated dividends as outlined below. The Corporation is considering its future business strategies and assessing the possibility of alternative financing options, including possible debt or equity issuances or the monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these alternatives.

The Corporation has established a $5.0 million revolving demand credit facility with Dundee Corporation to provide the necessary operating funds to meet certain ongoing general and administrative expenses. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%, and are due on demand. At December 31, 2015, the Corporation had drawn $4.6 million against this facility.

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

Series A Preference Shares

The Corporation has issued 32,150,000 Series A Preference Shares with a face value of $32.15 million. The Series A Preference Shares are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The Series A Preference Shares issued by the Corporation rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle Dundee Energy to a fixed preferential cumulative dividend at a rate of 4% per annum. Dundee Energy may reinvest any such dividends received into common shares of the Corporation, subject to obtaining the necessary approvals.

The Series A Preference Shares may be redeemed, at the option of either the Corporation or Dundee Energy, at any time, at a price equal to their face value of $32.15 million.

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

The Series A Preference Shares are non-voting except in the event that the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears for more than eight quarters, Dundee Energy is entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of the Corporation. At December 31, 2015, cumulative dividends outstanding on the Series A Preference Shares were $9.5 million (2014 – $8.2 million), representing outstanding dividends for more than eight quarters. However, at December 31, 2015, Dundee Energy had not exercised its entitlement to elect a majority of the Board of Directors of the Corporation.

Common Shares

As at January 28, 2016, there were 31,143,635 common shares outstanding.

COMMITMENTS

In prior years, the Corporation and APEX had entered into a farmout option agreement with Delta that was subsequently terminated. The Corporation and APEX are obligated to make certain payments to Delta if and when proceeds are received by the Corporation and APEX, to a maximum of US$20 million. Payments to Delta may include a share of the proceeds from the cost oil or cost gas portion of any future production revenues realized from the Sfax Permit.

RELATED PARTY TRANSACTIONS

The Corporation has not entered into any transactions with related parties, other than as described in Note 14 to the 2015 Audited Financial Statements.

BUSINESS RISKS

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

Additional Funding Requirements
The Corporation is currently in the exploration and evaluation stage of its working interest in Tunisia. The business activities of the Corporation and its farmout partners will require substantial amounts of capital in order to execute future exploration and evaluation work. The ability of the Corporation and its farmout partners' ability to discover commercially viable reserves and generate future profitable production are highly dependent on raising additional funds.

At December 31, 2015, the Corporation had cash of $26,134, compared with $349,216 at December 31, 2014. The Corporation has established a $5.0 million revolving demand credit facility with its principal shareholder, Dundee Corporation. At December 31, 2015, $4.6 million had been drawn against this facility. Any additional funding required by the Corporation would have to be accessed through debt or equity financings and/or bank borrowings, or through further farmout option arrangements. There can be no assurance that such financings or other arrangements would be available to the Corporation, or that such arrangements would receive the appropriate regulatory or governmental approvals.

Raising funds by equity financings would result in dilution, possibly substantial, to present shareholders of the Corporation. Bank borrowings that might be made available to the Corporation are typically determined in part by the borrowing base of the Corporation. The Corporation currently has no revenue sources to provide a borrowing base.

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 and its farmout partners. 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 and its farmout partners 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.

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

Foreign Operations
The Corporation's operations are subject to special risks inherent in doing business in other countries, particularly Tunisia where the Corporation's oil and natural gas exploration and evaluation activities are currently focused. Foreign operation risks include risks arising out of political uncertainty, the policies of foreign governments, imposition of special taxes or similar charges by governmental bodies, foreign exchange fluctuations and controls, access to capital markets, and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may also be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies.

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

Exploration, Development and Production Risks

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

Permits and Licenses

In connection with its operations, the Corporation, along with its farmout partners, is required to obtain permits, and in some cases, renewals of permits from the authorities in Tunisia. In addition, the Corporation and its farmout partners may also be required to obtain licenses and permits from governmental agencies in other foreign jurisdictions. The ability of the Corporation and its farmout partners 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 and its farmout partners, or unfavourable restrictions or conditions are imposed on drilling activities, there is a possibility the Corporation and its farmout partners will not be able to conduct their business activities as planned. Alternatively, failure by the Corporation and its farmout partners to comply with the terms of permits or licenses may result in the suspension or termination of business activities and subject the Corporation and its farmout partners to monetary penalties or restrictions. At December 31, 2015, the Corporation’s permits in respect of its Tunisian operations were in good standing.

Title to Properties

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

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 and its farmout partners 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 and its farmout partners 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 and its farmout partners to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of current activities, a material increase in future compliance costs, or otherwise adversely affect the Corporation’s financial condition and results of operations.

Insurance

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

In accordance with industry practice, the farmout partners in the Sfax Permit are not fully insured against all of these risks, nor are all such risks insurable. Although the farmout partners in the Sfax Permit maintain liability insurance in an amount, which they consider adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the farmout partners, including the Corporation, could incur significant costs that could have a material adverse effect upon its financial condition.

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

Litigation Risk
The legal risks facing the Corporation, its directors, trustees, officers and/or employees include potential liability for violations of environmental laws, health and safety laws, securities laws, damage claims for worker exposure to hazardous substances and for accidents causing injury or death. Litigation risk cannot be eliminated, even if there is no legal cause of action. Although the farmout partners maintain 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 farmout partners, including the Corporation, could incur significant costs that could have a material adverse effect on its financial condition.

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and amounts in net operating income or loss, and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of net operating income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A summary of the Corporation's significant accounting policies is provided in Note 3 to the 2015 Audited Financial Statements, including a discussion of proposed changes in accounting standards, interpretations and amendments to existing standards not yet effective, which may impact the financial reporting, and disclosure of the Corporation in the future. The most critical accounting policies are those that the Corporation believes are the most important in portraying its financial condition and results of operations and those that require the most subjectivity and estimates by management. A summary of critical judgments, estimates and assumptions made by the Corporation are provided in Note 4 to the 2015 Audited Financial Statements.

CONTROLS AND PROCEDURES

In connection with exemption orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer and the Chief Financial Officer of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the 2015 Audited Financial Statements and in the accompanying MD&A.

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

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

In addition, the Chief Executive Officer and Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in compliance with IFRS. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were any changes to the Corporation's control over financial reporting during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no changes identified during their evaluation.

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

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 risk that the Corporation is unable to access sufficient capital from internal and external sources, validity of commodity prices, currency fluctuations, risks associated with foreign operations, exploration, development and production risks, risks of not being able to obtain or renew permits and licenses, environmental risks, the impact of general economic conditions, reliance on key personnel and management, competition from other industry participants, and other risk factors discussed or referred to in the section entitled *"Business Risks"* in this MD&A and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they might have on the Corporation. 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.

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*.

Management's Report on Internal Control over Financial Reporting

The financial statements of Eurogas International Inc. (the "Corporation"), the accompanying notes thereto and other financial information contained in the Corporation's management's discussion and analysis are the responsibility of, and have been prepared by management. These financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout the documents accompanying these financial statements and has ensured it is consistent with the financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements.

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 a majority of independent directors, reviews the interim and annual financial statements and management's discussion and analysis of the Corporation and recommends them for approval by the Board of Directors. The Audit Committee reports its findings to the Board of Directors before the financial statements are approved by the Board.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, was appointed by the shareholders of the Corporation at the last annual meeting to examine the financial statements and provide an independent professional opinion as to their compliance with International Financial Reporting Standards. The auditor has full and unrestricted access to the Audit Committee to discuss the audit and related matters.

(signed) M. Jaffar Khan
President and Chief Executive Officer

(signed) D. Christopher Hope
Chief Financial Officer

Toronto, Canada
January 28, 2016

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 statements of financial position as at December 31, 2015 and 2014, and the statements of operations and comprehensive loss, statements of changes in shareholders' deficiency, and statements of cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS"), 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eurogas International Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with IFRS.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
January 28, 2016

EUROGAS INTERNATIONAL INC.
STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

	Note	As at December 31, 2015	As at December 31, 2014
ASSETS			
Current			
Cash		$ 26,134	$ 349,216
Prepaid amounts		-	6,188
		26,134	355,404
Non-current			
Equity accounted investment	5	295,830	418,776
		$ 321,964	$ 774,180
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 100,644	$ 135,236
Amounts due to Dundee Corporation	7	4,554,855	4,120,680
Accrued dividends on Series A Preference Shares	10	9,525,536	8,239,536
Series A Preference Shares	10	32,150,000	32,150,000
		46,331,035	44,645,452
SHAREHOLDERS' DEFICIENCY			
Share capital	11	1	1
Contributed surplus	11	18,000	18,000
Deficit		(46,027,072)	(43,889,273)
		(46,009,071)	(43,871,272)
		$ 321,964	$ 774,180

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

Going Concern Assumption (Note 2)

Commitments (Note 15)

On behalf of the Board,

(signed) M. Jaffar Khan
Director

(signed) Mark Rachovides
Director

EUROGAS INTERNATIONAL INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31, 2015 and 2014
(expressed in Canadian dollars, except per share amounts)

	Note	2015	2014
ITEMS IN NET LOSS			
General and administrative expenses	12	$ (315,326)	$ (614,071)
Impairment of exploration and evaluation properties	6	-	(6,181,371)
Dividends on Series A Preference Shares	10	(1,286,000)	(1,286,000)
Other interest expense	7	(182,058)	(178,957)
Foreign exchange gain		14,459	42,951
LOSS BEFORE SHARE OF LOSS FROM EQUITY ACCOUNTED INVESTMENT		(1,768,925)	(8,217,448)
Share of loss from equity accounted investment	5	(368,874)	(1,367,109)
NET AND COMPREHENSIVE LOSS FOR THE YEAR		$ (2,137,799)	$ (9,584,557)
NET LOSS PER COMMON SHARE			
Basic and diluted net loss per common share	13	$ (0.07)	$ (0.31)

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the years ended December 31, 2015 and 2014
(expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2013	$ 1	$ 18,000	$ (34,304,716)	$ (34,286,715)
Transactions for the year ended December 31, 2014				
Net loss for the year	-	-	(9,584,557)	(9,584,557)
Balance, December 31, 2014	1	18,000	(43,889,273)	(43,871,272)
Transactions for the year ended December 31, 2015				
Net loss for the year	-	-	(2,137,799)	(2,137,799)
Balance, December 31, 2015	$ 1	$ 18,000	$ (46,027,072)	$ (46,009,071)

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

EUROGAS INTERNATIONAL INC.
STATEMENTS OF CASH FLOW

For the years ended December 31, 2015 and 2014
(expressed in Canadian dollars)

	Note	2015	2014
OPERATING ACTIVITIES			
Net loss for the year		$ (2,137,799)	$ (9,584,557)
Non-cash items in net loss:			
Share of loss from equity accounted investment	5	368,874	1,367,109
Impairment of exploration and evaluation properties	6	-	6,181,371
Non-cash changes in accrued dividends on Series A Preference Shares	10	1,286,000	1,286,000
Other		-	1,518
		(482,925)	(748,559)
Changes in non-cash working capital:			
Prepaid amounts		6,188	(2,250)
Accounts payable and accrued liabilities		(34,592)	9,748
Reclamation expenditures	8	-	(34,936)
CASH USED IN OPERATING ACTIVITIES		(511,329)	(775,997)
FINANCING ACTIVITIES			
Changes in amounts due to Dundee Corporation		434,175	(1,369,393)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		434,175	(1,369,393)
INVESTING ACTIVITIES			
Investment in equity accounted investment	5	(245,928)	(167,109)
Proceeds received as consideration for farmout arrangement of Sfax Permit	6	-	2,871,720
Investment in exploration and evaluation properties	6	-	(215,142)
CASH (USED IN) PROVIDED FROM INVESTING ACTIVITIES		(245,928)	2,489,469
NET (DECREASE) INCREASE IN CASH DURING THE YEAR		(323,082)	344,079
CASH, BEGINNING OF YEAR		349,216	5,137
CASH, END OF YEAR		$ 26,134	$ 349,216

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

1. NATURE OF OPERATIONS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is incorporated under the Companies Act (Barbados), and is an independent oil and gas exploration company, targeting oil and natural gas reserves. The Corporation is domiciled in Barbados and its registered office is c/o George Walton Payne & Company, Suites 205-207 Dowell House, Roebuck & Palmetto Streets, City of Bridgetown, Barbados.

The common shares of the Corporation are listed on the Canadian Securities Exchange ("CSE") under the symbol "EI". At December 31, 2015, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% of the issued and outstanding common shares of the Corporation.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

These financial statements of the Corporation as at and for the year ended December 31, 2015, with comparative information as at and for the year ended December 31, 2014, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook – Accounting. These financial statements were approved by the Board of Directors of the Corporation for issue on January 28, 2016.

These financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2015, the Corporation had negative working capital of $46,304,901 (2014 – $44,290,048) and during the year then ended, it incurred a net loss of $2,137,799 (2014 – $9,584,557). The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for any such economically recoverable reserves, the ability to raise the necessary capital to finance development and settle current obligations of the Corporation, and working capital from future profitable production or proceeds from disposition of assets. There can be no assurance that the Corporation will be successful in achieving these initiatives. These material uncertainties may cast significant doubt upon the Corporation's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Corporation in the preparation of its financial statements are set out below.

Basis of Measurement
The financial statements have, in all material respects, been prepared under the historical cost convention.

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

Joint arrangements are classified as joint ventures or joint operations, reflecting the Corporation's underlying contractual rights and obligations pursuant to the joint arrangement. Joint arrangements that are classified as joint operations are accounted for using the proportionate consolidation method whereby the Corporation recognizes its share of the assets, liabilities, revenues and expenses of the joint operations. Joint arrangements classified as joint ventures are accounted for using the equity method, whereby the Corporation recognizes its share of income or loss and other comprehensive income or loss of the joint arrangement in its own operations or comprehensive income or loss, as applicable.

The Corporation assesses, at each reporting date, whether there is objective evidence that its interest in a joint venture arrangement is impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of the joint venture arrangement is written down to its estimated recoverable amount, with any difference charged to the statement of operations and comprehensive income or loss.

Foreign Currency

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

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

Financial Instruments
The Corporation's financial instruments consist of cash, accounts payable and accrued liabilities, amounts due to Dundee Corporation and the Series A Preference Shares and accrued dividends thereon.

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or are assigned and the Corporation has transferred substantially all risks and rewards of ownership in respect of the asset. Financial liabilities are derecognized when the related obligation is discharged or cancelled, or when such obligation expires.

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

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At December 31, 2015 and December 31, 2014, the Corporation's financial assets classified as loans and receivables are comprised solely of cash. Loans and receivables are initially recognized at the amounts expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment as may be required.

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

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

Impairment of Financial Assets
At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset, other than a financial asset that is carried in the Corporation's financial statements at fair value, is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event impacted the estimated future cash flows of the financial asset in an amount that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or delinquencies in interest and principal payments. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate for the financial asset. An impairment of a financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

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

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

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

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

Decommissioning Liability
A decommissioning liability is recognized when the Corporation has a legal or constructive obligation to dismantle and remove a facility or an item of property, plant and equipment on exploration and evaluation properties, and restore the site on which such item is located. When a decommissioning liability is recognized, a corresponding amount, equivalent to the amount of the obligation, is recognized as part of the cost of the related property, plant and equipment. A decommissioning liability is only recognized when a reliable estimate of that liability can be made.

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

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

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

Income Taxes
The Corporation follows the balance sheet liability method to provide for income taxes on all transactions recorded in the financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on deferred income tax assets and

liabilities of a change in tax rates is recognized in the statement of operations and comprehensive income or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered.

Per Share Information

Basic income or loss per common share is computed by dividing the net income or 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 stock based awards by applying the treasury stock method.

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

IAS 1, "Presentation of Financial Statements" ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. The adoption of the amendments is not expected to have a significant impact on the Corporation's financial statements.

IFRS 9, "*Financial Instruments" ("IFRS 9")*

In November 2009, the IASB issued IFRS 9, replacing IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 will be issued in three phases. The first phase, which has already been issued, addresses the accounting for financial assets and financial liabilities. The second phase will address impairment of financial instruments, while the third phase will address hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Requirements for financial liabilities were added to IFRS 9 in October 2010. Although the classification criteria for financial liabilities will not change under IFRS 9, the fair value option may require different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

In December 2013, new hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting.

In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9. These amendments introduce a single, forward-looking 'expected loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

The amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Corporation does not expect that the implementation of IFRS 9 will have a material effect on the Corporation's financial statements.

IFRS 11, "*Joint Arrangements" ("IFRS 11")*
In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, "*Business Combinations*". The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The adoption of the amendments is not expected to have a significant impact on the Corporation's financial statements.

IAS 16, "*Property, Plant and Equipment" ("IAS 16")* and *IAS 38, "Intangible Assets" ("IAS 38")*
In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation does not expect that these amendments will have a significant impact to the Corporation's financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements in accordance with IFRS requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, and amounts in net operating income or loss, and the related disclosure of contingent assets and liabilities included in the Corporation's financial statements. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of items in net operating income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its financial statements.

Recoverability of the Carrying Value of Exploration and Evaluation Properties
The Corporation is required to review the carrying value of its exploration and evaluation properties for potential impairment. Impairment is indicated if the carrying value of the Corporation's exploration and evaluation properties is not recoverable. If impairment is indicated, the amount by which the carrying value of exploration and evaluation properties exceeds their recoverable amount is charged to the statement of operations and comprehensive income or loss.

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

Impairment of Joint Ventures Accounted for using the Equity Method
The Corporation assesses, at each reporting date, whether there is objective evidence that a joint venture accounted for using the equity method is impaired. A joint venture accounted for using the equity method is impaired if there is objective evidence of impairment as a result of one or more events that have occurred that may impact the estimated future cash flows expected from the joint venture. Objective evidence that a joint venture accounted for using the equity method is impaired may include: a change in the financial health or outlook for the business of the joint venture or its underlying assets; indication that the joint

venture is in default of obligations or will enter bankruptcy; or a restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise. The assessment of impairment of a joint venture accounted for on an equity basis requires significant judgment, where management evaluates, among other factors, the duration and extent to which the recoverable value of underlying assets of the joint venture is less than its carrying value, the impact of capital market activities on the business of the joint venture, and the financial health of the joint venture. Different assumptions could result in significant changes to the carrying value of a joint venture accounted for using the equity method, and the associated amounts of equity earnings or losses from such investments.

Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires the interpretation of complex laws and regulations, often involving multiple jurisdictions. Deferred income tax assets are only recognized to the extent that the Corporation believes it is probable that the assets can be recovered. Judgment is required in determining whether deferred income tax assets should be recognized on the statement of financial position. Changes in enacted income tax rates are not within the control of management. However, any such changes in income tax rates may result in actual income tax amounts that may differ significantly from estimates recorded in deferred tax balances. Furthermore, all tax filings are subject to audit and potential reassessment after the lapse of considerable amounts of time.

5. EQUITY ACCOUNTED INVESTMENT

The Corporation accounts for its 45% joint venture interest in Innovative Production Services, Ltd. ("IPS") using the equity method. IPS' sole business activity is the ownership and continuing maintenance of a mobile offshore production unit (the "MOPU"), which is currently located in Louisiana, United States of America. The MOPU was originally acquired by IPS in expectation of leasing the equipment to affiliated companies to facilitate their producing, processing and transporting of oil and natural gas. IPS has undertaken several initiatives to monetize the asset through lease or sale to third parties. These efforts have not been successful and the MOPU is currently inactive.

As a result of a significant downturn in the market price of oil and the associated curbing of exploration and production activities in the oil and natural gas sector, the Corporation has determined that its resources would be better directed to alternative projects. As such, IPS has reduced the carrying value of the MOPU to its estimated recoverable amount of $657,400 (2014 – $930,613), and recognized an associated impairment loss of $273,000 (2014 – $2,700,000). The Corporation's proportionate share in the impairment loss was $122,946 (2014 – $1,200,000) and has been included in the amounts designated as "*Share of loss from equity accounted investment*" in the Corporation's statement of operations and comprehensive loss.

The recoverable amount of the MOPU was determined to be its fair value less cost of disposal, and was assessed by reference to the current market for scrap metal, taking into account the costs to break down and cut the MOPU into salvageable components, as well as associated delivery costs to the recycling point. In determining the recoverable amount of the MOPU, IPS used a valuation methodology that included observable market inputs, and therefore has classified the measurement of the asset at Level 3 of the fair value hierarchy.

The following table summarizes financial information about IPS' assets and the net and comprehensive loss as at and for the years ended December 31, 2015 and 2014. As IPS' only asset is the MOPU, it does not report any revenues.

As at and for the years ended December 31,	2015	2014
Assets	$ 657,400	$ 930,613
Net and comprehensive loss	(819,720)	(3,038,020)

The Corporation is not aware of any commitments or contingent liabilities relating to its ownership in IPS.

The following table provides a continuity of the Corporation's investment in IPS during the years ended December 31, 2015 and 2014.

		Investment in IPS
Carrying value, December 31, 2013	$	1,618,776
Transactions during the year ended December 31, 2014		
Investment in equity accounted investment		167,109
Share of loss from equity accounted investment		(167,109)
Impairment		(1,200,000)
Carrying value, December 31, 2014		418,776
Transactions during the year ended December 31, 2015		
Investment in equity accounted investment		245,928
Share of loss from equity accounted investment		(245,928)
Impairment		(122,946)
Carrying value, December 31, 2015	$	295,830

6. EXPLORATION AND EVALUATION PROPERTIES

The Corporation had entered into a joint operating arrangement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX") pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction activities on the Sfax offshore permit, located offshore Tunisia (the "Sfax Permit"), targeting oil and natural gas reserves. Under the terms of the arrangement, the Corporation held a 45% working interest in the Sfax Permit, and APEX, with the remaining 55% working interest, was designated operator of the Sfax Permit.

In January 2014, the Corporation and APEX entered into a farmout agreement with DNO Tunisia AS ("DNO"), a wholly owned subsidiary of DNO International ASA. Pursuant to the farmout agreement, the joint operating arrangement was amended such that DNO acquired an 87.5% working interest in the Sfax Permit in exchange for an upfront cash payment of US$6,000,000 and the subsequent carrying of 100% of all future costs, including development and production related costs associated with the Sfax Permit. DNO is currently the operator of the Sfax Permit and has assumed all drilling and other obligations associated with the Sfax Permit, including any monetary penalties arising due to non-fulfillment of work commitments agreed to under the terms of the Sfax Permit. The Corporation has retained a 5.625% working interest in the Sfax Permit, subject to certain cumulative revenue thresholds and priority recovery of expenditures by DNO.

During the year ended December 31, 2014, the Corporation received $2,871,720 (US$2,700,000), representing its 45% interest in the upfront cash payment made by DNO to secure its interest in the farmout agreement. Amounts received by the Corporation in respect of the farmout agreement were deducted from the carrying value of the Corporation's exploration and evaluation properties.

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2013	$	8,998,774
Transactions during the year ended December 31, 2014		
Investment in exploration and evaluation properties		54,317
Proceeds received as consideration for farmout agreement of Sfax Permit		(2,871,720)
Impairment		(6,181,371)
Carrying value, December 31, 2015 and December 31, 2014	$	-

Given the significant downturn and volatility in the market price of oil during late 2014, as well as unfavourable results of drilling activities on the Sfax Permit undertaken early in 2015, the Corporation's expected cash flows from its joint operating interest in the Sfax Permit are subject to significant uncertainties. As such, during the fourth quarter of 2014, the Corporation recognized an impairment of $6,181,371 in respect of the Sfax Permit, reducing the carrying value to $nil.

In August 2015, DNO received regulatory approval from the Tunisian authorities for a two-year extension of the first renewal period related to the Sfax Permit, extending the first renewal period and the associated exploration well drilling obligation to December 8, 2017. In addition, the extension requires the acquisition of certain seismic data. Under the terms of the farmout agreement, DNO is responsible for all obligations associated with the renewal. Notwithstanding the approval of the extension of the first renewal period, cash flows from the Corporation's joint operating interest in the Sfax Permit remain uncertain and consequently, the Corporation continues to carry the Sfax Permit at $nil at December 31, 2015.

7. AMOUNTS DUE TO DUNDEE CORPORATION

The Corporation has established a $5,000,000 revolving demand credit facility with Dundee Corporation. Borrowings under the revolving demand credit facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%. As lender to the Corporation, Dundee Corporation may, at its discretion and subject to the necessary regulatory approvals, require the Corporation to convert all of the amounts outstanding pursuant to the revolving demand credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares, defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of $0.05 per common share. At December 31, 2015, the Corporation had drawn $4,554,855 (2014 – $4,120,680) against the revolving demand credit facility. Interest expense incurred on the revolving demand credit facility during the year ended December 31, 2015 was $180,716 (2014 – $177,585).

8. DECOMMISSIONING LIABILITY

During the year ended December 31, 2014, the Corporation completed the removal of an ocean-floor template relating to a previously drilled well within the boundaries of the Sfax Permit at a cost of $34,936. There were no further reclamation costs incurred during the year ended December 31, 2015, and at December 31, 2015, the Corporation's estimate of expected future abandonment and site restoration costs associated with the Sfax Permit was $nil.

9. INCOME TAXES

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

At December 31, 2015, the Corporation had operating loss carry forwards of $8,385,092 (2014 – $7,163,700). A summary of the operating loss carry forwards by year of expiry is as follows

Year of Expiry:		
2016	$	378,365
2017		375,301
2018		755,345
2019		707,699
2020		1,157,999
Thereafter		5,010,383
	$	8,385,092

10. 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

At December 31, 2015, the Corporation had issued 32,150,000 Series A Preference Shares with a face value of $32,150,000. The Series A Preference Shares are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The Series A Preference Shares rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle Dundee Energy to a fixed preferential cumulative dividend at the rate of 4% per annum. Dundee Energy may reinvest any such dividends received into common shares of the Corporation, subject to obtaining the necessary approvals. The Series A Preference Shares may be retracted at the option of Dundee Energy or redeemed at the option of the Corporation at any time at a price equal to their face value of $1 per Series A Preference Share.

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

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

During the year ended December 31, 2015, the Corporation recognized an expense of $1,286,000 (2014 – $1,286,000), representing the dividends accrued on the Series A Preference Shares. At December 31, 2015, cumulative dividends outstanding were $9,525,536 (2014 – $8,239,536).

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to retract the Series A Preference Shares and its entitlement to demand payment of the associated cumulative dividends outstanding. Accordingly, at December 31, 2015 and 2014, the Corporation has classified these obligations as current obligations. At December 31, 2015, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

11. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Outstanding, December 31, 2015 and December 31, 2014	31,143,635	$ 1	$ 18,000

Common Shares Issued and Outstanding

The Corporation is authorized to issue an unlimited number of common shares. At December 31, 2015 and 2014, the Corporation had 31,143,635 common shares issued and outstanding.

Stock Based Compensation

The Corporation has established certain stock based compensation arrangements, including a share option plan and a deferred share unit plan. The aggregate number of common shares that may be issued from treasury under these arrangements may not exceed 3,114,363 and during any 12-month period, the number of shares issuable to any one person under these arrangements may not exceed 5% of the total number of common shares outstanding. At December 31, 2015, 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 CSE on the trading day immediately preceding the grant date. At December 31, 2015 and 2014, there were no options outstanding.

Deferred Share Unit Plan ("DSUP")

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

12. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

For the years ended December 31,		2015		2014
Salary and salary-related	$	61,378	$	119,243
Corporate and professional fees		237,935		444,611
General office		16,013		50,217
	$	315,326	$	614,071

13. NET LOSS PER COMMON SHARE

For the years ended December 31,		2015		2014
Net loss from operations attributable to shareholders	$	(2,137,799)	$	(9,584,557)
Weighted average number of common shares outstanding		31,143,635		31,143,635
Basic and diluted net loss per common share	$	(0.07)	$	(0.31)

14. RELATED PARTY TRANSACTIONS

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the year ended December 31, 2015, the Corporation incurred costs of $93,285 (2014 – $111,480), in respect of these arrangements.

Key Management Compensation

Compensation and other fees paid to members of the Board of Directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the years ended December 31, 2015 and 2014 are shown below.

For the years ended December 31,		2015		2014
Directors' fees and consulting arrangements	$	116,959	$	243,651
Benefits		670		592
	$	117,629	$	244,243

15. COMMITMENTS

In prior years, the Corporation and APEX had entered into a farmout option agreement with Delta Hydrocarbons B.V. ("Delta"), pertaining to the farmout of a 50% working interest in the Sfax Permit and the related Ras El Besh development concession. Delta subsequently expressed a desire to exit from the farmout option agreement and under a settlement arrangement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the Corporation and APEX, to a maximum of US$20 million. Payment obligations to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil portion of any future production revenues realized by the Corporation and APEX from the Sfax Permit.

16. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying value of cash, accounts payable and accrued liabilities, and amounts due to Dundee Corporation approximate their fair value. The Corporation has not disclosed the fair value of the Series A Preference Shares outstanding and the accrued dividends thereon, as they cannot be reliably measured, as the obligations are due to a related party.

At December 31, 2015 and 2014, there were no other financial instruments on the statements of financial position of the Corporation carried at fair value.

Risk Management

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

Market Risk

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

Fair Value Risk

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

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk, primarily relating to its revolving demand credit facility with Dundee Corporation (Note 7). An absolute 50 basis point change in market interest rates would result in a change of approximately $21,722 to the net loss incurred by the Corporation during the year ended December 31, 2015 (2014 – $20,350).

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 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, 2015, the Corporation had nominal US dollar denominated cash balances. A 3% change in the foreign exchange translation rate of Canadian to US dollars would result in a change to the Corporation's net loss of approximately $1,895 (2014 – $10,335).

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. The Corporation's 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 to be used in operations and anticipating any investing and financing activities. The following table summarizes the maturity profile of the Corporation's financial liabilities as at December 31, 2015.

	Carrying Amount	Contractual Term to Maturity
Accounts payable and accrued liabilities	$ 100,644	Typically due within 20 to 90 days
Amounts due to Dundee Corporation	4,554,855	Payable on demand
Accrued dividends on Series A Preference Shares	9,525,536	Payable on declaration by the Board of Directors
Series A Preference Shares	32,150,000	Retractable at the option of the holder or the Corporation
Total	**$ 46,331,035**	

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

At December 31, 2015, the Corporation had cash of $26,134. This amount is insufficient to meet its current obligations and commitments as they become due (Notes 2 and 15).

17. CAPITAL MANAGEMENT

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to ensure that it will have sufficient financial capacity to fund its current obligations and pursue exploration and evaluation opportunities as they arise. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint arrangements or farmout agreements, or engage in debt financing. There can be no assurance that the Corporation will be successful in raising sufficient capital to fund ongoing operations.

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