

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results is dated May 14, 2007, and is to be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes for the period ended March 31, 2007 and the audited consolidated financial statements and related notes and management discussion and analysis ("MD&A") of Eurogas Corporation ("Eurogas" or the "Corporation") for the year ended December 31, 2006. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Eurogas is a Canadian-based company whose common shares are traded on the TSX Venture Exchange (TSXV). During the period, Eurogas carried on activities in Spain and Tunisia. Eurogas is focused on creating long-term value through the development of high-impact energy projects. The Corporation is developing an underground natural gas storage facility in Spain and is conducting exploration programs for oil and natural gas offshore Tunisia.

### 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. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. 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 achievement 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 benefits the Corporation will derive from there. 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.

*All financial units in this MD&A are expressed in Canadian dollars unless otherwise stated.*

### INTERNATIONAL OIL AND GAS PROJECTS

#### **Spain: Castor UGS Project**

The Corporation's Castor UGS Project entails the conversion of the abandoned Amposta oil field (located 21 kilometers off the eastern Mediterranean coast of Spain) to natural gas storage operations. Eurogas is the majority interest-holder of the Castor UGS Project through its 73.7 percent ownership of Escal UGS S.L. ("Escal"), which is headquartered in Madrid, Spain and held directly by Castor UGS Limited Partnership.

During the quarter, the Corporation recognized \$491,244 as receivable from Castor UGS L.P. minority unit holders representing current period costs which are the responsibility of minority unit holders.

Subsequent to the end of the quarter, Castor UGS limited partners agreed to a \$28 million cash call. Eurogas will fund the minority unit holders' portion of the cash call in exchange for notes payable with a one-year term.

Management continued to advance the project on technical, financial and managerial levels during the first quarter. Castor UGS Project is one of the first underground gas storage projects to be developed under Spain's current energy regulatory regime and will become a regulated utility forming a crucial element of Spain's energy infrastructure. The project requires successful completion of a complex permitting process, including the grant of the Exploitation Concession. Escal has provided input to the regulatory roadmap being completed by the central and regional authorities, and continues to do so with the assistance of ACS Group under a Collaboration Agreement reached in December 2006.

Management currently estimates the cost of the project at \$1.2 billion; however, the Front End Engineering and Design Study (the "FEED" Study) currently underway will further define this cost estimate.

## **2007 DEVELOPMENT PROGRAM**

### **(a) *Engineering and facilities***

During the three months ended March 31, 2007, capital investment on the Castor UGS Project totalled \$3.3 million, compared to \$1.2 million during the same quarter last year. The FEED Study was well underway during the quarter with \$2.4 million (2006 - nil) invested. In accordance with an Assistance Contract entered into by Escal in October 2006, ACS Group continued preparation of the detailed package covering design, specifications, cost estimates and project scheduling, which will serve as the basis for engineering, procurement and construction ("EPC") contracts. The FEED work conducted by ACS under the Assistance Contract is expected to take nine months to complete and cost approximately \$4.6 million. To date, the Corporation has incurred \$2.5 million under the Assistance Contract. Total spending on the FEED Study, including the Assistance Contract, outside studies, consulting, and staff costs totalled \$3.8 million at March 31, 2007.

Other technical work during the quarter included further core and volumetric analysis. The Corporation spent \$76,580 during the quarter on these activities, compared to \$576,250 during the same quarter last year.

Looking forward, the Corporation is planning to complete additional pre-EPC detailed engineering work at an estimated cost of \$6.8 million. Also, a refundable guarantee is due upon application for certain permits that totals \$12 million and is anticipated to be required in June 2007.

### **(b) *Capitalization of administrative costs***

The Corporation has committed substantial technical expertise and strategic direction to the Castor UGS Project based out of the Calgary and Madrid offices. Administrative costs associated with the project are capitalized as part of the project's pre-development phase of operations. Administrative costs totalling \$752,319 were capitalized, compared to \$553,856 during the same quarter last year.

## **Tunisia: Sfax Permit**

Eurogas is currently conducting exploration programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where the Corporation holds a 45 percent interest in the 1.0 million acre Sfax Permit. Eurogas is the non-operating partner in the permit.

### **(a) *Ras el Besh***

Eurogas continued its evaluation of the Ras el Besh ("REB-3") discovery during the quarter. Capital investment totalling \$502,036 was incurred, compared to \$283,387 during the same quarter last year, and included \$321,843 (2006 - \$199,087) related to the Corporation's share of administration, supervision, studies and overhead costs incurred by its joint venture partner in advancing the Ras el Besh discovery program. In addition, the Corporation capitalized \$180,193 of its own corporate general and administrative costs to the Tunisian asset pool during the quarter, compared to \$84,300 during the same quarter last year. All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations.

In December 2005, Eurogas and its operating partner successfully converted a Seismic Option to a four-year Exploration Permit with a commitment to drill one well within the permit. Further progress on the permit was made when, in July 2006, the Tunisian Hydrocarbons Committee approved a 30-year Development Concession for the Ras el Besh field.

In preparation for potential production at Ras el Besh, and subsequent to the end of the quarter, Eurogas and its partner finalized the purchase of the Ocean Patriot, a production jack-up rig, and will take possession of the vessel in May 2007. In August 2006, Eurogas paid US\$112,500 as its share of the down payment costs for the Ocean Patriot. The total purchase price is US\$2.5 million and additional funds will be required for refurbishment. Once REB-3 confirms the structure to be economic for further development, partners will commence refurbishment activities and may procure other production facilities.

Timing of the REB-3 drilling program has not been finalized. The drilling costs are currently estimated at US\$8.5 million net to Eurogas, a portion of which was incurred during 2006 and during the first quarter of 2007. Further Tunisian expenditures will depend on the results of the well.

**(b) Farmout area**

The exploration strategy for the Sfax Permit was implemented in May 2006 when Eurogas and APEX entered into a Farmout Option Agreement with Anadarko Petroleum Corporation (“Anadarko”). Anadarko can earn a maximum of 75 percent working interest in the farmout lands by completing two seismic acquisition programs, drilling two exploration wells, and reimbursing partners for up to \$4.5 million of past costs. The first seismic acquisition program of 420 km<sup>2</sup> of 3-D shallow water seismic began in March 2007. The acquisition will take up to three months.

Specifically excluded from the Farmout Agreement are three areas covering a total of 50,400 acres surrounding three prior oil discoveries (Ras el Besh, Jawhara and Salloum), in which Eurogas and its partner, APEX, jointly retained a 100 percent interest and plan to further evaluate and develop these plays. Eurogas and its partner will continue to focus on evaluation of the retained areas, recognizing that they are of low risk as each contains an oil discovery by previous operators from either the El Garia or Bireno formations.

## **CONSOLIDATED RESULTS OF OPERATIONS**

### **Interest and other revenue**

The Corporation earns interest income on cash and short-term deposits. During the quarter, \$178,002 of interest income was received, compared to \$215,591 during the same period last year. The decrease in interest revenue is reflective of the decrease in cash and short term deposits. The Corporation continues to fund its international projects with proceeds from a 2005 Rights Offering.

### **General & administrative (G&A) expenses**

Net G&A expenses for the first quarter totalled \$419,069, which is consistent with expenses during the same quarter last year totalling \$425,581. Gross G&A (before capitalization to international asset pools as described below) was \$857,106 during the first quarter, compared to \$783,481 the first quarter of last year. This translates into a 9% increase quarter over quarter. In general, increased staffing costs reflect the expanding activities required in the development of the Castor UGS Project.

### **Capitalized G&A expenses**

In comparison to last year when \$357,900 of G&A expenditures were capitalized during the quarter, the Corporation allocated \$438,037 of G&A expenditures to its subsidiaries during the current quarter, including certain stock-based compensation amounts. These costs were capitalized to respective international asset pools in association with the development phase of each location, in accordance with Service Agreements. The portion of G&A expenses allocated to subsidiaries is based on the amount of employee time and resources dedicated to international projects. The increase in capitalized G&A during the quarter, compared to the same period last year, is a result of increased efforts directed at international ventures, particularly associated with the development of the Castor UGS Project where increased technical and management staff were necessary to advance the project.

### **Stock-based compensation expense**

Stock-based compensation expense is included as a component of G&A. Stock-based compensation measures the implicit cost of compensating personnel through the issuance of stock options and deferred share units as further described in the 2006 audited financial statements. For the three months ended March 31, 2007, the Corporation incurred stock-based compensation expense of \$179,467 compared to \$168,834 during the same quarter last year. In addition to amounts expensed, the Corporation capitalized \$98,633 of stock-based compensation to international asset pools during the quarter (2006 - nil). Stock options issued in May 2006 account for the overall increase in stock-based compensation during the quarter, compared to the same quarter last year.

### **Income taxes**

The Corporation's future income tax asset at March 31, 2007 was \$279,000 (December 31, 2006 - \$299,000) including future income tax assets of \$104,000 (December 31, 2006 - \$108,000) associated with the Corporation's tangible assets and foreign exploration development expense pools, and \$175,000 (December 31, 2006 - \$191,000) associated with share issue costs.

During the first quarter, the Corporation recognized a provision for future income tax expense totalling \$20,000 related to continuing operations, compared to \$45,000 last year. Future income tax is largely the result of timing differences on share issue costs incurred on the Corporation's 2005 Rights Offering.

The Corporation is subject to tax on Canadian operations. A current income tax expense of \$77,000 was recognized during the quarter related to continuing operations, compared to \$31,000 during the same period last year. A current tax provision has been recognized on Canadian source earnings which includes interest income on cash held and interest income charged on funds advanced to international subsidiaries.

### **Net earnings**

Eurogas' two energy projects, namely, the Castor UGS Project in Spain and the Sfax Exploration Program in Tunisia, are both in the development stage. The Corporation has not generated operating revenues since the exit from Canadian oil and gas operations in May 2005. The Corporation incurred a net loss from continuing operations of \$355,067 during the quarter, compared to a net loss of \$310,612 during the same period last year. The Corporation's net losses are the result of administrative and financing costs not otherwise attributed to international activities.

### **Per share information**

Basic earnings (loss) per common share are computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For the three months ended March 31, 2007, the weighted average common shares outstanding were 123,424,763 (2006 – 122,691,986). Diluted amounts per common share are calculated using the treasury stock method to determine the dilutive effect of stock options. The treasury stock method assumes that the proceeds received from the exercise of "in the money" stock options are used to repurchase common shares at the average market price during the period. There were no dilutive options for the period ended March 31, 2007.

### **Liquidity and capital resources**

Working capital of \$13.6 million as at March 31, 2007 has decreased from \$17.0 million as at December 31, 2006 as a result of capital expenditures and operating costs incurred during the quarter. Included in working capital at March 31, 2007 are cash and short term deposits totalling \$16.3 million.

Eurogas holds a revolving credit facility with Dundee Corporation ("Dundee"), the Corporation's principal shareholder, to a maximum of \$6 million, bearing interest at the rate of prime plus 2 percent per annum, and a standby rate of 1 percent per annum on any undrawn portion of the facility. As at March 31, 2007, \$6 million was available for use.

Management of Eurogas anticipates the cost of the Castor UGS Project to be approximately \$1.2 billion, which will be incurred over a period of years. The Corporation will need to arrange project financing to advance the project's development. On March 5, 2007 the Corporation announced an agreement with Deutsche Bank, whereby Deutsche Bank will act as financial advisor to Eurogas with respect to the project financing for a fee of approximately \$92,500 per month to a maximum of \$1.1 million, plus an additional success fee.

At March 31, 2007, the Corporation's market value of common shares was \$154.3 million based on the closing price of \$1.25 per share and 123,424,763 shares outstanding. No options were issued during the quarter. The number of common shares outstanding at May 14, 2007 was 123,674,763.

### **Commitments**

The Corporation's commitments include minimum lease payments to a landlord totalling \$440,000 over the next five years, including \$117,000 in the current year, \$310,000 during 2008 and 2009, followed by \$13,000 in 2010. In addition, \$1.5 million has been committed towards the purchase of a jack-up rig, the Ocean Patriot, as part of the development of Ras el Besh in Tunisia. Eurogas and its partner will take possession of the vessel in May 2007.

In December 2005, the Corporation converted a Seismic Option held at Sfax to a four-year Exploration Permit with a commitment to drill one well during the four-year period.

### **Related party transactions**

Certain transactions with Dundee occurred during the first quarter, including interest and standby fee payments totalling \$14,794 (2006 - 16,310) related to the Corporation's \$6 million credit facility. Cash interest payments are due monthly in arrears.

## **Business risks**

There are a number of inherent risks associated with the Corporation's two energy projects. Many of these risks are beyond the control of management. The following outlines some of the Corporation's principal risks and their potential impact.

### Development projects

The Castor UGS Project has not yet received all necessary governmental approvals in Spain. There can be no assurance that such approvals will be forthcoming on terms acceptable to the Corporation. The Corporation does not have final project engineering designs for the Castor UGS Project, although such plans are underway. The proposed Castor UGS Project is not operational as of the date hereof and is not anticipated to be operational within the next year. The Corporation has not previously carried on business as an operator of a gas storage facility.

Development projects such as the Castor UGS Project are subject to the successful completion of feasibility studies and the issuance of necessary government permits and regulatory approvals. In addition, when construction commences, the final amount of time required and costs involved to complete the project cannot be determined. The exact effect of these factors cannot be adequately predicted, but the combination of these factors may impact the economic viability of the project.

### Financing

The business and operations of the Corporation will require substantial additional capital. This includes the cost of drilling in Tunisia and the costs of completing the Castor UGS Project. There can be no assurance that the Corporation will continue to have access to sufficient capital, whether by debt or equity financing, to complete such projects. In addition, bank borrowings which might be made available to the Corporation are typically determined in part by the borrowing base of the Corporation. The Corporation currently has no material revenue sources and does not expect to have any until production commences from the Castor UGS Project, which may not occur. The Corporation will need further development of its projects to establish a borrowing base, based on proven reserves.

### International operations

The Corporation's international operations are subject to special risks inherent in doing business in a number of international locations. These risks can involve matters arising out of the policies of foreign government, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation.

### Foreign currency

The Corporation's planned capital expenditures are denominated in several currencies, the most important being the Euro and the U.S. dollar, while the Corporation's reporting currency is the Canadian dollar. Fluctuations in the rate of exchange may affect the ability of the Corporation to carry out its exploration and development programs. Future development costs may be higher than currently envisioned due to unforeseen events such as currency fluctuations. Currency fluctuations will also affect future profits. The Corporation does not actively hedge against foreign currency fluctuations. The Corporation's operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards.

### Government laws and regulations

Foreign properties, operations and investments may 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 as well as bylaws and policies of Canada affecting foreign trade, investment and taxation. Furthermore, it is important that the Corporation maintain good relationships with the governments in certain of the countries in which it operates. The Corporation may not be able to maintain such relationships if the governments of these countries change.

### Petroleum industry

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil companies which have greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods of reliability of delivery.

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of the Corporation. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. The Corporation's oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment.

### Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material. The Corporation does not have any reserves assigned to its properties and does not have an independent engineering evaluation report under National Instrument 51-101. The Corporation has not yet had drilling success in Tunisia. The Corporation does not currently have any oil or gas production. There can be no assurances as to the quantities of oil remaining in the Amposta reservoir.

### Access to equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

### Impairment

The Corporation intends to use the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows. To the extent that such capitalized costs (net of accumulated depreciation and depletion) less future taxes exceed the present value of estimated future net cash flows from the Corporation's proved oil and natural gas reserves, those excess costs would be required to be charged to operations.

### Insurance

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property and the environment, or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation will maintain liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

### Director independence

Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Canadian Business Corporation Act.

### Key executives

The Corporation's success will depend in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretions, integrity and good faith of the management of the Corporation.

### **Changes in accounting policies**

As of January 1, 2007, Eurogas adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506, "Accounting Changes", Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3861, "Financial Instruments - Disclosure and Presentation", and Section 3865, "Hedges". The new standards are intended to harmonize Canadian standards with United States and International accounting standards.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company.

On December 1, 2006, the CICA issued three new accounting standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments - Presentation". These new standards are effective January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward, unchanged, its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. We are currently assessing the impact of these new standards on our financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

## **Control environment**

### *Disclosure controls and procedures*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management, as appropriate, to allow timely decisions regarding required disclosures. The Corporation's Chief Executive Officer and Chief Financial Officer, together with management, have concluded, based on their evaluation as of the end of the period covered by the filings, that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Corporation.

### *Internal control over financial reporting*

Under the supervision of and with the participation of Eurogas' management, including the Chief Executive Officer and the Chief Financial Officer, internal control over financial reporting has been designed and maintained in order to provide reasonable assurance regarding the reliability of financial reporting, as of the end of the period covered by the filings. During the quarter ended March 31, 2007, there have been no material changes in internal control over financial reporting. In common with many small companies, segregation of duties are difficult, however compensating controls are in place at Eurogas, including key management authorizations and reviews.

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

## **Additional information**

Additional information regarding the Corporation and its business and operations is available on the Corporation's company profile at [www.sedar.com](http://www.sedar.com). This information is also accessible on the Corporation's website at [www.eurogascorp.com](http://www.eurogascorp.com).

## Summary Financial Information

### Three months ended

	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
<b>Sales, net of royalties</b>				
Discontinued operations	\$ -	\$ 38,000	\$ 25,401	\$ 4,471
<b>Interest Income</b>	178,002	267,491	222,223	220,171
<b>Funds from (used in) operations</b>				
Continuing operations	(153,394)	(151,753)	(194,974)	(288,962)
Discontinued operations	-	(28,728)	(6,685)	(170,546)
Corporate total	(153,394)	(180,481)	(201,659)	(459,508)
<b>Net earnings (loss)</b>				
Continuing operations	(355,067)	(990,028)	(481,626)	(666,535)
Discontinued operations	-	(28,728)	(6,685)	(170,546)
Corporate total	(355,067)	(1,018,756)	(488,311)	(837,081)
Per share basic and fully diluted	(0.00)	(0.01)	(0.00)	(0.01)
<b>Capital expenditures (gross)</b>	\$3,814,228	\$1,351,721	\$3,027,430	\$2,523,231

### Three months ended

	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
<b>Sales, net of royalties</b>				
Discontinued operations	\$ 4,505	\$ (4,983)	\$ 84,550	\$ (30,984)
<b>Interest Income</b>	215,591	124,443	107,688	23,404
<b>Funds from (used in) operations</b>				
Continuing operations	(88,466)	(550,097)	115,776	(470,753)
Discontinued operations	2,839	125,014	19,498	(114,210)
Corporate total	(85,627)	(425,083)	135,274	(584,963)
<b>Net earnings (loss)</b>				
Continuing operations	(310,612)	(611,772)	(377,683)	(639,055)
Discontinued operations	2,839	(129,865)	18,784	274,233
Corporate total	(307,773)	(741,637)	(358,899)	(364,822)
Per share basic and fully diluted	(0.00)	(0.01)	(0.00)	(0.00)
<b>Capital expenditures (gross)</b>	\$1,501,677	\$2,152,079	\$2,772,949	\$ 863,930

**EUROGAS CORPORATION**  
**Consolidated Balance Sheets**  
(Unaudited)

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and short-term deposits	\$ 16,299,382	\$ 18,738,542
Accounts receivable	207,155	198,464
Prepays and other (Note 2)	1,018,089	646,209
Joint venture receivable (Note 3(a))	491,244	463,382
	<u>18,015,870</u>	<u>20,046,597</u>
Notes receivable	1,180,354	1,166,706
Property, plant and equipment (Note 3)	61,508,939	57,701,955
Future income taxes	279,000	299,000
	<u>\$ 80,984,163</u>	<u>\$ 79,214,258</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 4,286,249	\$ 2,948,845
Taxes payable	130,005	53,005
	<u>4,416,254</u>	<u>3,001,850</u>
Asset retirement obligation (Note 7)	435,228	432,762
Non-controlling interest	4,376,706	3,946,704
	<u>9,228,188</u>	<u>7,381,316</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	67,719,390	67,719,390
Contributed surplus (Note 8)	2,344,978	2,066,878
Retained earnings	1,691,607	2,046,674
	<u>71,755,975</u>	<u>71,832,942</u>
	<u>\$ 80,984,163</u>	<u>\$ 79,214,258</u>

See accompanying notes.

**EUROGAS CORPORATION**  
**Consolidated Statements of Operations and Retained Earnings**  
**(Unaudited)**

Three months ended March 31	2007	2006
<b>REVENUE</b>		
Interest and other	\$ 178,002	\$ 215,591
<b>EXPENSE</b>		
General and administrative	419,069	425,581
Interest	14,794	16,310
Depreciation and accretion	9,710	7,273
Foreign exchange (gain) loss	(7,504)	1,039
	436,069	450,203
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	(258,067)	(234,612)
<b>PROVISION FOR INCOME TAXES</b>	97,000	76,000
<b>LOSS FROM CONTINUING OPERATIONS</b>	(355,067)	(310,612)
<b>EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Note 6)</b>	-	2,839
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	(355,067)	(307,773)
<b>RETAINED EARNINGS, BEGINNING OF THE PERIOD</b>	2,046,674	4,698,595
<b>RETAINED EARNINGS, END OF THE PERIOD</b>	\$ 1,691,607	\$ 4,390,822
<b>EARNINGS (LOSS) PER COMMON SHARE BASIC AND DILUTED (Note 8)</b>		
Loss from continuing operations	\$ (0.00)	\$ (0.00)
Earnings from discontinued operations, net of tax (Note 6)	(0.00)	0.00
<b>Net loss</b>	<b>(0.00)</b>	<b>(0.00)</b>

See accompanying notes.

**EUROGAS CORPORATION**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

Three months ended March 31	2007	2006
<b>OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$ (355,067)	\$ (310,612)
Depreciation and accretion	9,710	7,273
Recovery of future income taxes	20,000	45,000
Stock based compensation expense	179,467	168,834
Unrealized foreign exchange (gain) loss	(7,504)	1,039
Funds used in continuing operations	(153,394)	(88,466)
Funds from discontinued operations	-	2,839
Change in non-cash working capital (Note 9)	(384,741)	(813,527)
Cash used in operating activities	(538,135)	(899,154)
<b>FINANCING ACTIVITIES</b>		
Issue of share capital, net (Note 8)	-	210,700
Rights offering costs	-	(12,415)
Issue of partnership units	430,002	-
Change in non-cash working capital (Note 9)	(13,648)	(13,800)
Cash provided by financing activities	416,354	184,485
<b>INVESTING ACTIVITIES</b>		
Investment in oil and gas properties (Note 3)	(3,715,595)	(1,501,677)
Change in non-cash working capital (Note 9)	1,390,712	(1,214,840)
Cash used in investing activities	(2,324,883)	(2,716,517)
Foreign exchange gain (loss) on cash held in foreign currency	7,504	(1,039)
<b>DECREASE IN CASH AND SHORT-TERM DEPOSITS</b>	<b>(2,439,160)</b>	<b>(3,432,225)</b>
<b>CASH AND SHORT-TERM DEPOSITS, BEGINNING OF PERIOD</b>	<b>18,738,542</b>	<b>26,173,723</b>
<b>CASH AND SHORT-TERM DEPOSITS, END OF PERIOD</b>	<b>\$ 16,299,382</b>	<b>\$ 22,741,498</b>

See accompanying notes.

# EUROGAS CORPORATION

## Notes to the Consolidated Financial Statements (Unaudited)

---

### 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements as at and for the three month period ended March 31, 2007, have been prepared by management in accordance with Canadian generally accepted accounting principles, using the same accounting policies as those set out in Note 1 to the audited consolidated financial statements for the year ended December 31, 2006. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006, except as described below.

#### *Basis of presentation*

Effective June 11, 2004, Eurogas transferred all but two of its major Canadian assets to Great Plains Exploration Inc. ("Great Plains"), pursuant to the Plan of Arrangement described in the Management Information Circular of Eurogas dated April 5, 2004 (the "Arrangement"). The Corporation's remaining Canadian oil and natural gas assets were sold effective May 1, 2005. As such, the results of operations for the Canadian oil and natural gas assets are presented as discontinued operations for all periods presented (Note 6).

#### **Changes in accounting policies**

On January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 - "Financial Instruments - Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Corporation's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

#### Comprehensive income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Upon adoption of Section 1530, the Corporation revised its "Consolidated Statements of Operations and Retained Earnings" to include the newly required statement of comprehensive income by creating a combined statement.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income. Currently, the Corporation has no OCI.

#### Financial instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities", as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Corporation in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

## **EUROGAS CORPORATION**

### **Notes to the Consolidated Financial Statements (Unaudited)**

---

#### **1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Accounts receivable and joint venture receivables are designated as "loans and receivables". Account payable and accrued liabilities are designated as "other liabilities".

The adoption of the financial instruments standard had no impact on opening retained earnings.

##### Accounting changes

As of January 1, 2007, the Corporation adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. There is no material impact to the Corporation's consolidated financial statement as a result of implementing this new standard.

In addition, the Corporation has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Corporation:

As of January 1, 2008, the Corporation will be required to adopt two new CICA standards, Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation", which will replace Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Corporation is assessing the impact on its consolidated financial statements.

As of January 1, 2008, the Corporation will be required to adopt the new CICA Section 1535 "Capital Disclosures", which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Corporation is assessing the impact on its consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Corporation continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

#### **2. PREPAIDS AND OTHER**

As at March 31, 2007, the Corporation had Value Added Tax ("VAT") amounts receivable from Spanish Authorities of approximately \$443,035 related to capital investment in Spain. VAT receivable has been presented as a component of prepaids and other. At December 31, 2006, VAT receivable was \$279,590.

In addition, advance payments totalling \$418,536 have been made to a joint venture partner in accordance with a Joint Operating Agreement. As at March 31, 2007, no costs had been incurred against the advance. The funds were spent subsequent to the end of the quarter.

## EUROGAS CORPORATION

### Notes to the Consolidated Financial Statements (Unaudited)

#### 3. PROPERTY, PLANT AND EQUIPMENT

Following are the Corporation's oil and natural gas properties by cost centre:

	March 31, 2007	December 31, 2006
Oil and natural gas properties:		
Spain	\$ 40,250,853	\$ 36,938,661
Tunisia	21,096,562	20,594,525
	61,347,415	57,533,186
Other:		
Furniture and fixtures	844,381	844,381
Accumulated depreciation	(682,857)	(675,612)
	\$ 61,508,939	\$ 57,701,955

Net capital investment during the period by cost centre was as follows:

Three months ended March 31	2007	2006
Spain	\$ 3,312,192	\$ 1,176,713
Tunisia	502,036	283,387
	3,814,228	1,460,100
Furniture & fixtures	-	41,577
	\$ 3,814,228 <sup>(1)</sup>	\$ 1,501,677

<sup>(1)</sup> Includes non-cash amounts totalling \$98,633 (2006 - nil) related to stock based compensation charges capitalized during the quarter.

##### a) Spain

The Corporation holds a majority interest in its Castor Exploration Permit through Castor UGS Limited Partnership ("Castor UGS LP"), which was formed in 2001. The Castor Exploration Permit covers the abandoned Amposta oil field, which is a suitable reservoir to store natural gas. The Corporation's project in Spain (the "Castor UGS Project"), entails the development of the Castor natural gas storage facility at the Amposta oil field, including the installation of onshore and offshore gas storage facilities connected by a large diameter subsea pipeline. Eurogas holds a 73.7 percent working interest in the gas storage facility through its ownership in Castor UGS LP.

Eurogas invested \$3.3 million during the first quarter of 2007 (2006 - \$1.2 million), which included \$2.4 million (2006 - nil) on the Castor UGS Project Front End Engineering and Design Study ("FEED Study"), \$429,478 (2006 - \$280,256) on general and administrative ("G&A") costs incurred by the Corporation's Spanish subsidiary, Escal UGS S.L., \$242,400 (2006 - \$273,600) on corporate G&A costs allocated to the project in accordance with service agreements, \$80,441 (2006 - nil) of stock based compensation, and \$76,580 (2006 - \$576,250) on technical studies associated with the project.

## EUROGAS CORPORATION

### Notes to the Consolidated Financial Statements (Unaudited)

---

#### 3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Financing activities associated with the Castor UGS Project accelerated during the quarter. The Corporation incurred costs of \$103,571 (2006 - nil), including amounts associated with a financial advisory agreement with Deutsche Bank entered into on March 5, 2007. Deutsche Bank will act as financial advisor on project financing matters related to Castor UGS Project for a fee of approximately \$92,500 per month, to a maximum of \$1.1 million plus an additional success fee.

As operating partner of Castor UGS LP, the Corporation incurred costs totalling \$491,244 during the quarter (2006 - \$111,000), which have been allocated to minority unit holders and recorded as a joint venture receivable in the Corporation's financial statements. Minority unit holders are periodically cash-called for their proportionate share of costs associated with the development of the Castor natural gas storage facility. As at March 31, 2007, \$491,244 (December 31, 2006 \$463,382) was receivable from minority unit holders. Minority unit holders may choose not to pay the cash-call. In that case, their interest in the natural gas storage facility will be proportionately reduced. Any unpaid cash-call amounts will be added to oil and natural gas properties and the Corporation's interest in the project increased accordingly.

Subsequent to the end of the quarter, Castor UGS limited partners agreed to a \$28 million cash call. Eurogas will fund the minority unit holders' portion of the cash call in exchange for notes payable with a one-year term.

#### b) Tunisia

##### *Sfax Permit*

On the Corporation's 1.0 million acre offshore Sfax permit located in the Gulf of Gabes, Eurogas' capital expenditures totalled \$502,036 during the quarter (2006 - \$283,387). Capital spending during the quarter focused on the development of the Ras el Besh ("REB-3") discovery and included \$321,843 (2006 - \$199,087) spent on operating costs and studies related to the development program. Eurogas holds a 45% interest in the Sfax permit.

In addition, the Corporation capitalized \$162,000 of corporate general and administrative expenditures (2006 - \$84,300), and \$18,193 (2006 - nil) of stock based compensation to Tunisian asset pools during the quarter.

#### 4. CONTRACT FEE PAYABLE

On October 19, 2006 the Corporation's Spanish subsidiary, Escal, entered into an Assistance Contract with ACS Group, for the development of the Castor UGS Project. Under the terms of this contract, ACS Group has undertaken the Front End Engineering and Design study ("FEED") and will provide permitting and licensing services. The contract for FEED is expected to take approximately nine months, at a contract price of \$4.6 million, and will result in a fixed price determination for project investment as well as form the basis for an award of a turnkey contract for Engineering, Procurement and Construction ("EPC").

In association with the Contract, the Corporation has accrued \$2,513,000 for the period from October 19, 2006 to March 31, 2007.

# EUROGAS CORPORATION

## Notes to the Consolidated Financial Statements (Unaudited)

---

### 5. RELATED PARTY TRANSACTIONS

Eurogas holds a \$6 million revolving credit facility with Dundee Corporation (“Dundee”), the Corporation's principal shareholder, secured with a pledge, in favor of Dundee, of all of the Corporation's interest in the units of Castor UGS LP. The credit facility bears interest at the rate of prime plus 2 percent per annum. Interest is payable monthly, in arrears.

Interest expense and related standby fees related to the credit facility totaled \$14,794 during the quarter (2006 - \$16,310). Cash interest paid during the period was equal to interest expense during the quarter.

### 6. DISCONTINUED OPERATIONS

Effective May 1, 2005 the Corporation relinquished all interest in Canadian oil and gas properties with the sale of its two remaining properties in Alberta and Saskatchewan for cash consideration of \$650,000. Operations related to these properties are presented as discontinued operations. Also included, as discontinued operations, are the results from operations related to the other Canadian assets transferred to Great Plains effective June 11, 2004 in accordance with the Plan of Arrangement.

Restoration obligations were retained by the Corporation for any properties where petroleum and natural gas rights were relinquished prior to the 2004 Plan of Arrangement.

### 7. ASSET RETIREMENT OBLIGATION

The Corporation estimates its total future asset retirement obligation (“ARO”) based on its net ownership interest in all wells, the estimated costs to abandon and reclaim such wells, and the estimated timing of the costs to be incurred in future periods.

As at March 31, 2007, the Corporation had net ownership of 73.7 percent in one well, Castor #1. To calculate the fair value of the ARO, the Corporation's estimates include total undiscounted cash flows required to settle the ARO of approximately \$2.3 million, a time horizon of 35 years, a credit adjusted risk-free rate of seven percent and an inflation rate of two percent.

The following reconciles the Corporation's asset retirement obligation at March 31, 2007:

Three months ended	March 31, 2007
Balance, beginning of period	\$ 432,762
Accretion expense	2,466
Balance, end of period	\$ 435,228

# EUROGAS CORPORATION

## Notes to the Consolidated Financial Statements (Unaudited)

### 8. SHARE CAPITAL

a) Issued and outstanding shares:

Common Shares	Number	Amount
Balance, January 1, 2007	123,424,763	\$ 67,719,390
Exercise of share options	-	-
Balance, March 31, 2007	123,424,763	\$ 67,719,390

b) Contributed surplus:

A summary of the changes in the Corporation's contributed surplus balance for the three months ended March 31, 2007 is as follows:

	Amount
Balance, January 1, 2007	\$ 2,066,878
Stock options vested <sup>(1)</sup>	278,100
Balance, March 31, 2007	\$ 2,344,978

<sup>(1)</sup> Stock based compensation expense of \$179,467 (2006 - \$168,834) was recognized during the quarter related to stock options. In addition, a total of \$98,633 (2006 - nil) was capitalized to international asset pools during the quarter. Stock based compensation is based on the estimated fair value of options and deferred share units on the grant date in accordance with the fair value method and amounts are amortized over the vesting period of the option and deferred share units.

c) Stock based compensation:

i. Share Option Plan

Details of the Corporation's share option plan are disclosed in Note 10 to the 2006 Audited Consolidated Financial Statements. As at March 31, 2007, there were 4,605,000 options outstanding at a weighted average exercise price of \$1.10. There were no changes from December 31, 2006.

As at March 31, 2007, options to purchase 3,103,333 common shares were exercisable as follows:

Option Price (\$)	Options Outstanding	Options Exercisable	Remaining Contractual Life (Years)
0.16	1,150,000	1,150,000	0.3
0.32	400,000	400,000	2.3
1.19	25,000	16,667	3.1
1.26	600,000	450,000	3.0
1.37	300,000	-	4.6
1.50	200,000	133,333	3.0
1.70	300,000	100,000	3.5
1.65	1,030,000	253,333	4.2
1.76	600,000	600,000	3.0
	4,605,000	3,103,333	

## EUROGAS CORPORATION

### Notes to the Consolidated Financial Statements (Unaudited)

---

#### 8. SHARE CAPITAL (cont'd)

##### ii. Deferred Share Unit Plan

Details of the Corporation's deferred share unit plan are disclosed in Note 10 to the 2006 Audited Consolidated Financial Statements. As at March 31, 2007, 3,930,000 common shares remain available for grant under the DSUP.

##### d) Net earnings per share

The weighted average number of common shares outstanding for the period ended March 31, 2007 was 123,424,763 (March 31, 2006 - 122,691,986). There were no dilutive options.

#### 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following:

Three months ended March 31	2007	2006
Accounts receivable	\$ (8,691)	\$ 25,349
Prepays and other	(371,880)	7,728
Joint venture receivable	(27,862)	(111,000)
Rights offering receivable		-
Notes receivable	(13,648)	(13,800)
Accounts payable, accrued liabilities and taxes payable (recoverable)	1,414,404	(1,950,444)
Change in non-cash working capital	\$ 992,323	\$ (2,042,167)
Relating to:		
Financing activities	\$ (13,648)	\$ (13,800)
Investing activities	1,390,712	(1,214,840)
Operating activities	\$ (384,741)	\$ (813,527)

#### 10. COMMITMENTS

At March 31, 2007, the Corporation had committed \$1.5 million towards a production jack-up rig associated with development at Ras el Besh in Tunisia. Eurogas and its partner will take possession of the vessel in May 2007.

#### 11. SUBSEQUENT EVENTS

On May 17, 2007, Eurogas entered into an agreement with minority unit holders of Castor UGS L.P., whereby Eurogas will fund their portion of a \$28 million cash call in exchange for notes payable totalling \$7.4 million payable over a one-year term.