



Eurogas Corporation

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas Corporation ("Eurogas" or the "Corporation") is a Canadian-based company whose common shares trade on the TSX Venture Exchange ("TSXV") under the symbol EUG. Eurogas is focused on creating long-term value through the development of high-impact energy projects. The Corporation holds interests, both directly and indirectly, in the largest accumulation of producing oil and natural gas assets in Ontario, the development of an underground natural gas storage facility in Spain and, through a preferred share investment, in certain exploration and evaluation programs for oil and natural gas located offshore of Tunisia.

This interim management's discussion and analysis has been prepared with an effective date of October 26, 2010, and provides an update on matters discussed in, and should be read in conjunction with the audited consolidated financial statements of the Corporation, including the notes thereto, as at and for the year ended December 31, 2009 (the "2009 Audited Consolidated Financial Statements") and the unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2010 (the "September 2010 Interim Consolidated Financial Statements"). All amounts are in Canadian dollars unless otherwise specified. Financial data has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise specified.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management and labour and labour relations generally, health and safety risks, stock market volatility, the ability to access sufficient capital from internal and external sources, and other risk factors discussed or referred to in the section entitled "Business Risks" in the Corporation's management's discussion and analysis accompanying its 2009 Audited Consolidated Financial Statements, as updated herein and other documents filed from time to time with the securities administrators, all of which may be accessed at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what resulting benefits the Corporation will derive. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

SIGNIFICANT INVESTMENTS

Dundee Energy Limited Partnership

On June 29, 2010, Dundee Energy Limited Partnership ("DELP"), a wholly-owned limited partnership of the Corporation, completed the acquisition (the "Acquisition") of certain assets located in and around Lake Erie, Ontario (the "Lake Erie Assets"). The Lake Erie Assets include a 95% working interest in 65,000 acres of onshore oil properties as well as a 65% working interest in 902,000 acres of offshore gas properties.

At the time of the Acquisition, estimated net production volumes from the Lake Erie Assets included 706 barrels per day (“bpd”) of 42° API oil and condensate as well as 11.6 million cubic feet per day (“MMcf/d”) of natural gas. Combined, this represents net production volumes of 2,639 barrels of oil equivalent per day¹ (“boe/d”), generating an estimated \$25 million of cash flows per annum, even at current low gas prices.

Management, together with independent qualified reserves evaluators and engineers estimate proved reserves of 63 billion cubic feet of gas with a reserve life index² of 16.3 years as well as 1.8 million barrels of oil with a reserve life index of 6.9 years. These reserves supply the Corporation with a stable foundation of high netback production with low risk development potential.

The Acquisition also provides the Corporation with potential growth opportunities, including a significant number of development drilling locations, as well as opportunities for well re-completions and the optimization of the existing infrastructure system. Importantly, our quest to acquire these assets includes the potential for the development of gas storage reservoirs, the feasibility of which we are currently evaluating.

Castor UGS Limited Partnership

The Corporation’s 73.7% owned subsidiary, Castor UGS Limited Partnership (“CLP”), holds a 33.33% interest in the Castor Exploration Permit through its investment in Escal UGS S.L. (“Escal”), giving the Corporation an effective 24.6% interest. The Corporation accounts for its investment in Escal on an equity basis.

Escal was granted the Castor Exploration Permit, which covers the abandoned Amposta oil field, the first offshore oil field discovered in the Spanish Mediterranean area, which will be utilized by Escal for its Castor underground gas storage project (the “Castor Project”). On June 15, 2008, the exploration permit was replaced by a development concession, which allows Escal to construct and utilize the Castor Project (the “Development Concession”). Upon completion, the Castor Project and facility will become a regulated utility, forming a crucial element of Spain’s energy infrastructure.

CLP has entered into agreements with ACS Servicios Comunicacions y Energia S.L. (“ACS”), the largest construction group in Spain and with Enagas, S.A., (“Enagas”), Spain’s top natural gas transportation company, the technical manager of the Spanish gas system and common carrier for the high pressure gas network in Spain. ACS currently holds a 66.67% interest in Escal. These agreements provide that no later than at the start-up of the Castor Project, ACS will sell and Enagas will buy 50% of ACS’ interest in Escal on a pre-established pricing formula at which point CLP, ACS and Enagas will each own 33.33% of the equity of Escal. In addition, and for a period of 180 days after start-up of the Castor Project, CLP may sell part or all of its shares in Escal to ACS and/or Enagas on essentially the same terms and conditions, including the pre-established pricing formula, as are offered to Enagas.

Upon commencement of operations, Enagas will assume general responsibility for operations, including monitoring and analyzing the performance of ACS as the operations and maintenance contractor.

The Castor underground gas storage facility’s anticipated working gas storage capacity of 1.3 billion cubic meters is expected to provide a reserve for seasonal and extraordinary peak demands as well as the ability to respond to normal peak demands. The facility’s anticipated high delivery rate of 25 million cubic metres per day will contribute strategic storage and reliability of supply to industrial and domestic customers in Spain.

¹ Calculated at a barrel of oil (boe) conversion ratio of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf to 1 bbl), based on an energy equivalency conversion method which is primarily applicable at the burner tip and does not always represent a value equivalency at the wellhead.

² Reserve life index was determined by dividing proved reserves at the expected acquisition date by expected annual production. For greater certainty, the reserve life index included only proved reserves and does not include probable or possible reserves.

Eurogas International Inc.

The Corporation holds a \$32,150,000 preferred share interest in Eurogas International Inc. (“Eurogas International”). Although the Corporation’s investment in Eurogas International is strictly limited to these preferred shares and the Corporation does not hold any common shares, the terms of the Corporation’s preferred share investment requires the consolidation of the accounts of Eurogas International, as it is considered a variable interest entity pursuant to Canadian GAAP. The nature of the Corporation’s investment limits the value of the Corporation’s interest in Eurogas International to the face value of the preferred shares and any accrued interest thereon.

Eurogas International is an independent oil and gas company engaged in the exploration and evaluation of its extensive landholdings offshore Tunisia, targeting large scale oil and natural gas reserves. Eurogas International holds a 45% working interest, and is the non-operating partner, in the Sfax offshore permit (the “Sfax Permit”) covering 908,425 acres located in the shallow Mediterranean waters in the Gulf of Gabes, offshore Tunisia and southeast of the city of Sfax.

CONSOLIDATED NET EARNINGS

In the nine months ended September 30, 2010, the Corporation incurred a net loss of \$2.6 million, or \$0.02 per share, compared with a net loss of \$2.2 million, or \$0.01 per share in the nine months ended September 30, 2009.

<i>For the three and nine months ended September 30,</i>	Three Months		Nine Months	
	2010	2009	2010	2009
Dundee Energy Limited Partnership	\$ 257,937	\$ -	\$ (540,622)	\$ -
Castor UGS Limited Partnership	(15,638)	(106,996)	(377,448)	(505,492)
Eurogas International Inc.	(257,227)	(728,059)	(1,279,678)	(1,699,179)
Corporate activities	(253,093)	8,382	(838,089)	(146,214)
	(268,021)	(826,673)	(3,035,837)	(2,350,885)
Income taxes	77,504	(70,294)	(403,794)	(114,121)
Net loss for the period	\$ (345,525)	\$ (756,379)	\$ (2,632,043)	\$ (2,236,764)

Following the Acquisition completed in June 2010, the Corporation began generating revenues and incurring expenses from production activities on the Lake Erie Assets. As such, the nature of the Corporation’s operations have changed significantly, thereby impacting the various components of net earnings from those of the comparable period of the prior year, where the Corporation’s activities were limited to development and exploration on its Spanish and Tunisian interests.

LAKE ERIE ASSETS

The Acquisition

To date, the Corporation has paid \$133,237,892 to acquire the Lake Erie Assets. Aggregate consideration paid is subject to final closing adjustments, which are expected during the fourth quarter of the current year.

The initial price of the Lake Erie Assets, as announced in April 2010, was \$131.0 million. Transaction costs related to the Acquisition were \$4.3 million, including interest of \$1.3 million and legal and advisory costs of \$3.0 million. In addition, the Corporation funded \$0.4 million in capital expenditures and it assumed certain prepaid costs of \$1.0 million. Offsetting these additional expenditures, and in accordance with the terms of the purchase and sale agreement, the Corporation received \$3.5 million from the vendor of the Lake Erie Assets, representing net earnings from the assets for the period from March 1, 2010, the effective date of the agreement, through to May 31, 2010. These proceeds were applied to reduce the aggregate purchase price. The Corporation is also entitled to net earnings through to the closing date of June 29, 2010, which it expects to receive as part of final closing adjustments.

As part of the Acquisition, the Corporation acquired a 65% ownership interest in certain other assets including an offshore fleet of drilling and completion vessels, three gas plants and three compressor stations, all located onshore, and a 100% interest in four oil batteries. The Acquisition also provides for ownership or licensing of 14,680 km of 2-D seismic and 431 km² of 3-D seismic.

The allocation of the aggregate purchase price to the various net assets acquired was based on a preliminary assessment of their underlying fair values and is summarized below:

Net assets acquired	
Property, plant and equipment*	\$ 152,390,751
Prepaid expenses	1,031,501
Asset retirement obligation	(19,699,728)
Future income tax liability	(484,632)
	\$ 133,237,892
Aggregate purchase price	
Initial purchase price	\$ 131,000,000
Transaction costs	4,283,006
Capital expenditures	431,193
Prepaid expenses	1,031,501
Net earnings from March 1, 2010 to May 31, 2010	(3,507,808)
	\$ 133,237,892

*Includes capitalization of \$19,699,728 associated with expected abandonment and reclamation costs.

In its first full quarter of operations, pre-tax net earnings from the Lake Erie Assets were \$0.3 million on revenues, net of royalties, of \$8.2 million. In connection with the Acquisition, DELP established a credit facility to partially fund the aggregate purchase price. Costs associated with establishing this facility, including arrangement fees and initial draw-down fees, adversely impacted overall operating results from the Lake Erie Assets and resulted in a net operating loss of \$0.5 million.

Oil and Gas Sales

	Average Production Volumes	Oil and Gas Sales (\$'000's)	Realized Prices (\$)
Average production			
Natural gas (<i>mcfd</i>)	10,453	4,881	5.08
Oil (<i>bbls/d</i>)	683	4,799	76.38
Liquids (<i>bbls/d</i>)	15	72	50.75
Total (<i>boe/d</i>)	2,441	9,752	43.43
Benchmark prices			
Dawn (<i>US\$/GJ</i>)			4.60
WTI (<i>US\$/bbl</i>)			76.06

Sales volumes as reported represent the Corporation's share of revenues from sales of oil, natural gas and liquids and are presented before royalty payments to governments and other mineral interest owners.

Sales volumes since the Acquisition averaged 2,441 boe/d. During this period, the Corporation scheduled turnaround work on its Morpeth gas plant as well as replacement, repair and looping of offshore pipelines that feed the Nanticoke compressor station. The Corporation estimates that these scheduled outages decreased average sales volumes by approximately 90 boe/d. Unplanned outages, resulting primarily from storm and storm related damages, reduced sales volumes during the period by a further 25 boe/d.

The Corporation received an average price of \$76.38/bbl on oil sales, generating revenues before royalties of \$4.8 million. Oil currently represents 28% of the overall production volume on a boe basis and generates 49% of total revenues.

Revenues from gas sales were adversely affected by North American natural gas prices which, as a result of excess supply, have continued to decline during the quarter. The Corporation realized an average price of \$5.08/Mcf on gas sales, generating total revenues of \$4.9 million. Gas currently represents 71% of the overall volume on a boe basis and generates 50% of total revenues.

Sales revenue associated with natural gas liquids represents approximately 1% of total sales volume on a boe basis and represents 1% of total revenues.

Sales revenues are either received in U.S. currency or are closely referenced to the U.S. dollar. The Corporation converts these revenues into Canadian dollars for reporting purposes.

Oil and Gas Expenses

Royalties

The Corporation's royalty obligations include crown royalties as well as freehold and overriding royalties. Since the Acquisition, the Corporation has paid royalties of \$1.6 million, or approximately 16% of oil and gas sales.

	Sales Volume	Revenues (\$000's)	Royalty Payments (\$000's)	Royalties as a % of Revenues
Natural gas (mcf/d)	10,453	4,881	766	16%
Oil (bbls/d)	683	4,799	795	17%
Liquids (bbls/d)	15	72	12	17%
Total (boe/d)	2,441	9,752	1,573	16%

Cost of Sales and Transportation Costs

Cost of sales and transportation costs were \$2.8 million since the Acquisition or approximately \$12.44 on a boe basis.

Cost of sales (\$000's)	2,602
Transportation costs (\$000's)	191
	2,793
Operating expenses (\$/boe)	12.44

Depreciation, Depletion and Accretion

Capitalized costs associated with the Lake Erie Assets with proved reserves are adjusted for estimated future maintenance capital to be incurred in developing such proved reserves, and are depleted over proved reserves using the unit of production method. The Corporation expects to update depletion rates annually, unless there is a material change in circumstances. Since the Acquisition, depletion in respect of the Lake Erie assets was \$3.2 million.

Other Measures of Operating Performance

The Corporation's interim consolidated financial statements are prepared in accordance with Canadian GAAP. We believe that important measures of operating performance include certain measures that are not defined under Canadian GAAP and, as such, may not be comparable to similar measures used by other companies. Throughout this discussion, there will be references to the following performance measures which management believes are relevant in assessing the economics of its business activities. While these measures are non-GAAP, the Corporation refers to them as supplementary measures to net earnings or cash flows.

- *Field Level Cash Flows* is calculated as revenues from oil and gas sales, less royalties, cost of sales and transportation costs. Field level cash flows contributes to the funding of the Corporation's working capital and capital expenditure requirements, as well as providing cash flow for repayment of amounts owing pursuant to the Corporation's credit facility.
- *Field Netbacks* refers to field level cash flows expressed on a boe basis.

Field Level Cash Flows

In its first full quarter of operations, field level cash flows generated from the Lake Erie Assets were \$5.4 million. The calculation of field level cash flows is summarized below:

(in \$000's)

Oil and gas sales	9,752
Royalties	1,573
Cost of sales	2,602
Transportation	191
Field level cash flows	5,386

Field Netbacks

Field netbacks represent the unit revenues and unit costs on a boe basis for items related to field level cash flows. Since the Acquisition, field netbacks were \$23.98 per boe.

(in \$/boe)

	Oil and Liquids	Natural Gas	Total
Total sales	75.81	30.45	43.43
Royalty expense	(12.56)	(4.78)	(7.01)
Cost of sales and transportation costs	(17.36)	(10.47)	(12.44)
Field netbacks	45.89	15.20	23.98

Capital Expenditures

Since the Acquisition, the Corporation has incurred capital expenditures on the Lake Erie Assets of \$1.8 million.

(in \$000's)

Facilities	957
Offshore fleet	485
Workovers	235
Well abandonments	66
Equipment purchases	48
Land acquisitions	15
	1,806

Capital expenditures of \$1.0 million incurred in respect of facilities include a new compressor at the Port Maitland gas plant, which is expected to increase gas production, as well as pipeline replacements and upgrades throughout the field. A further \$0.5 million of capital expenditures were incurred for the offshore barge and supply boat fleet to optimize gas production from offshore wells.

Asset Retirement Obligation

In connection with the Acquisition, the Corporation recognized a liability representing the expected cash flows required to settle future asset retirement obligations. The discounted amount of these obligations was estimated at \$19.7 million. Over time, the liability will be accreted for the change in its present value and the initial capitalized costs will be depleted and amortized over the expected life of the assets.

CASTOR UNDERGROUND GAS STORAGE PROJECT

The Castor Project and facility will provide Spain with urgently needed gas storage capacity by converting the abandoned Amposta oil field to gas storage operations. The project consists of an underground gas storage reservoir that lies at a depth of 1,800 metres, approximately 21 kilometres off the east coast of Spain in the Mediterranean Sea; two offshore platforms for 13 wells and processing facilities; an onshore compression and processing plant located in the municipality of Vinaroz and an adjoining 30-inch pipeline. The estimated cost of the Castor Project is €1.5 billion. On July 22, 2010, Escal announced that it had entered into a €1.3 billion project financing arrangement with a syndicate of banks to support the cost of the Castor Project (see “Liquidity and Capital Resources – Spain, Financing Status of the Castor Project”). Gas injection is scheduled to begin in 2012.

Regulator and Remuneration Regime

Remuneration for underground gas storage includes three components: repayment of capital, return on investment and payment for operating and maintenance expenses. The capital cost of the project is returned in equal payments over the useful life of the asset, which is set at 10 years for all facilities except for the cushion gas, which is set at 20 years. A provisional remuneration regime may be implemented for the period between the granting of the Development Concession and the start-up of the facility, which would provide early cash flow. At the end of the useful life, the “cost of extension of useful life” payment commences at half the rate that was paid in the last year of the useful life and continues for the remaining period of the Development Concession (30 years plus two extensions of 10 years each).

Return on investment is based on the net investment multiplied by the remuneration rate. The remuneration rate is equal to the Spanish government’s 10-year bond rate plus 3.5% and is set for the full useful life of the facility. As with repayment of capital, at the end of the useful life, the “cost of extension of useful life” payment will commence at half the rate that was paid in the last year of useful life and continues for the remaining period of the Development Concession. Payment for operating and maintenance includes both a fixed component and a variable component and is designed to cover actual operating and maintenance costs.

The Development Concession for the Castor Project, which was granted in 2008, was the primary regulatory approval needed to develop the Castor Project. Following receipt of the Development Concession, Escal applied for a series of secondary permits, all of which have now been received.

Onshore Site

The local authorities approved the site for the onshore facilities in early 2008 and Escal has completed the procurement of land. The routing of the subsea pipeline from the shore to the site of the onshore facilities has been established and the necessary right of ways were granted. Earth works commenced mid-February of the current year. Enagas has been contracted and will pay for the construction of the pipeline needed to connect the onshore facilities to the national gas pipeline grid.

Engineering, Procurement, Construction (“EPC”)

Escal has submitted its budget to the Ministry of Industry with planned spending of €1.2 billion, excluding interest and fees associated with the financing. As at September 30, 2010, €627 million has been spent. The budget outlines spending for permitting, engineering, procurement and land acquisition. ACS, in its capacity as the overall EPC contractor, has awarded most of the major contracts, including the EPC and the transportation of the two offshore platforms, namely, the wellhead platform and the process platform, the drilling of the remaining 12 offshore wells, and the EPC of the onshore facilities. EPC contracts are pending for the installation of the onshore and offshore pipelines.

The overall development of the Castor Project is progressing on schedule with completion expected in 2012. A major milestone was reached with the installation of the wellhead platform in September 2010. The wellhead platform, the first of two permanent offshore platforms, will support the 12 wells in the drilling program, which commenced in September 2010.

PREFERRED SHARE INTEREST IN EUROGAS INTERNATIONAL

Eurogas International entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), to undertake exploration, evaluation and extraction operations pursuant to the working interest awarded to them in the Sfax Permit. APEX is the operating partner in the joint venture arrangement and owns 55%, while Eurogas International’s position is 45%.

During the three and nine months ended September 30, 2010, an aggregate of \$0.5 million and \$2.5 million, respectively (three and nine months ended September 30, 2009 - \$1.0 million and \$3.1 million, respectively) was capitalized to deferred exploration costs. The estimated budget for the Sfax Permit and the associated Ras-El-Besh Concession during the remainder of 2010, is US\$0.9 million, of which Eurogas International is responsible for its net share of US\$0.4 million.

Eurogas International completed the drilling of the Ras-El-Besh (“REB-3”) well in 2008. Upon completion of drilling and testing, the joint venture partners obtained approval to temporarily suspend the well and release the drilling rig. Agreement by the Tunisian government was subject to the reinterpretation and remapping of seismic data, after which the joint venture partners must decide to either reenter or abandon the well. This assessment is currently being conducted. In the event of abandonment, the total cost to the joint venture is estimated to be between US\$6.5 million to US\$10 million. Actual costs will depend on factors such as the mobilization and demobilization cost of the rig and prevailing rates.

During the second quarter of 2010, Eurogas International settled previously announced arbitration proceedings with Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited (collectively “Seawolf”) for US\$12 million, to be received by Eurogas International over an 18 month period. The settlement is secured by a bank guarantee from a recognized international bank. As at September 30, 2010, Seawolf had paid US\$3.3 million towards payment of amounts outstanding pursuant to the settlement, all of which has been deposited to an escrow account.

Eurogas International’s interest in the escrow account is subject to final determination under its joint venture agreement with APEX and the joint venture’s farmout and settlement agreements with Delta Hydrocarbons B.V., but will be no less than 22.5%, and may reach a maximum of 45% of settlement proceeds. For accounting purposes, Eurogas International will recognize its interest in the aggregate settlement proceeds when the terms for release of funds from the escrow account have been determined, at which time they will be recorded as a reduction in the carrying value of Eurogas International’s interest in oil and natural gas properties.

Additional information regarding Eurogas International may be accessed at www.eurogasinternational.com.

RESULTS OF OPERATIONS

Nine months ended September 30, 2010 compared with the nine months ended September 30, 2009

The Corporation's activities in respect of the Castor Project and Eurogas International's activities in Tunisia are in the development, exploration and evaluation stage and therefore, no operating revenues are currently generated from these activities.

During the nine months ended September 30, 2010, the Corporation earned revenues of \$8.4 million compared with revenues of \$1.3 million earned during the same period of the prior year. Current year revenues include \$8.2 million earned from oil and gas sales, net of royalties, following the acquisition of the Lake Erie Assets on June 29, 2010 (see "Lake Erie Assets"). Excluding the operating results from the Acquisition, the Corporation's interest and other revenue decreased to \$0.2 million in the nine months ended September 30, 2010, reflecting lower levels of cash and short term investments compared to the same period of the prior year.

Costs associated with the production and sale of oil and gas include all costs incurred to operate and maintain wells and related equipment and facilities, including direct labour costs, costs associated with repairs and maintenance, and costs for materials, fuel or other forms of energy consumed and supplies utilized in these operations. Cost of sales since acquisition of the Lake Erie Assets on June 29, 2010 were \$2.6 million. In addition, the Corporation incurred transportation costs related to these sales of \$0.2 million.

During the nine months ended September 30, 2010, the Corporation incurred general and administrative expenses of \$3.7 million, an increase of \$0.7 million over \$3.0 million of general and administrative expenses incurred during the nine months ended September 30, 2009. The Acquisition of the Lake Erie Assets increased general and administrative costs by \$0.9 million, partially offsetting a \$0.2 million decrease in general and administrative costs incurred in other business areas.

Depreciation, depletion and accretion expense during the nine months ended September 30, 2010 was \$3.7 million compared with \$0.5 million incurred in the nine months ended September 30, 2009. Included in these costs is \$3.2 million of depletion associated with production on the Lake Erie Assets and accretion of the associated asset retirement obligation of \$0.3 million. On a consolidated basis, the effect of these increases is partially offset by a \$0.3 million decrease in depreciation expense related to the mobile offshore production unit and to reclamation costs associated with the REB-3 well.

Interest expense incurred during the nine months ended September 30, 2010 was \$1.3 million, substantially all of which relates to the interest and financing charges associated with the \$80.0 million credit facility which the Corporation established in connection with the Acquisition (see "Liquidity and Capital Resources").

During the nine months ended September 30, 2010, the Corporation recognized equity earnings of \$4,758 (nine months ended September 30, 2009 – loss of \$20,992) in respect of its investment in Escal. In addition, included in other comprehensive income for the nine months ended September 30, 2010, is an after-tax foreign exchange loss of \$402,133 (nine months ended September 30, 2009 – loss of \$114,409), representing the Corporation's share of foreign exchange differences arising on the translation of Escal's operations to Canadian dollars.

Three months ended September 30, 2010 compared with the three months ended September 30, 2009

The Corporation incurred a net loss during the three months ended September 30, 2010 of \$0.3 million, compared with a net loss of \$0.8 million in the same period of the prior year.

During the third quarter of the current year, the Corporation earned revenues of \$8.2 million from oil and gas sales, net of royalties, associated with the Lake Erie Assets. As these assets were acquired at the end of the second quarter of 2010, there are no comparative revenues in the third quarter of the prior year. Interest and other revenue decreased to \$21,764 from \$0.3 million in the third quarter of the prior year, reflecting lower levels of cash and short term investments. Cost of sales incurred during the third quarter of the current year were \$2.8 million including \$0.2 million of transportation costs.

General and administrative expenses incurred during the three months ended September 30, 2010 were \$1.3 million, an increase of \$0.4 million over general and administrative expenses of \$0.9 million incurred during the three months ended September 30, 2009. While the Acquisition of the Lake Erie Assets increased general and administrative costs by \$0.9 million, the Corporation benefited from decreases in professional fees, including a \$0.4 million decrease in costs associated with the Seawolf litigation and a further decrease of \$0.1 million in other consulting costs.

During the third quarter of 2010, the Corporation incurred interest costs in respect of its \$80.0 million credit facility of \$0.8 million.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter ended:			
	30-Sep-10	30-Jun-10	31-Mar-10	31-Dec-09
Revenues	\$ 8,200,623	\$ 76,847	\$ 101,627	\$ 176,232
Net loss				
Operations	(350,906)	(1,384,827)	(1,035,761)	(962,344)
Equity participation	(200)	(893)	5,851	(3,887)
Non-controlling interest	5,581	63,484	65,628	45,019
	(345,525)	(1,322,236)	(964,282)	(921,212)
Funds used in (provided by) operations	1,820,750	1,250,967	(1,571,110)	(674,045)
Capital expenditures	2,315,320	806,629	1,225,008	261,332
Basic and fully diluted loss per share	\$ -	\$ (0.01)	\$ (0.01)	\$ (0.01)

	Quarter ended:			
	30-Sep-09	30-Jun-09	31-Mar-09	31-Dec-08
Revenues	\$ 314,898	\$ 494,463	\$ 535,264	\$ 584,938
Net (loss) earnings				
Operations	(793,506)	(967,850)	(591,984)	1,471,404
Equity participation	(1,641)	-	(19,351)	13,030
Non-controlling interest	38,768	66,733	32,067	(235,645)
	(756,379)	(901,117)	(579,268)	1,248,789
Funds used in (provided by) operations	(2,193,385)	445,270	(870,982)	(347,761)
Capital expenditures	951,484	1,853,121	267,880	1,704,905
Basic and fully diluted (loss) earnings per share	\$ -	\$ (0.01)	\$ -	\$ 0.01

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At September 30, 2010, the Corporation had consolidated cash and short term investments aggregating \$1.4 million. Included in the Corporation's consolidated cash and short term balance was \$0.8 million held directly by Eurogas International.

On June 29, 2010, and in connection with the acquisition of the Lake Erie Assets, the Corporation arranged for the establishment of an \$80.0 million credit facility, including a \$20.0 million operating facility. The credit facility was issued as a direct obligation of DELP, and was placed with a banking syndicate of Canadian chartered banks. The credit facility is structured as a revolving demand loan, and is subject to a tiered interest rate structure that varies based on the net debt to cash flow ratio generated from the Lake Erie Assets. The interest rate on the credit facility is initially set at prime plus 3% for loans and letters of credit or, for bankers' acceptances, at the bankers' acceptance rate plus 4%.

At September 30, 2010, the Corporation had drawn \$62.6 million against the credit facility and as required by statute, it had further issued a letter of credit for \$3.3 million in favour of the Ministry of Natural Resources in connection with future abandonment costs.

The Corporation anticipates that cash flows generated from ongoing operating activities, as well as amounts available pursuant to its credit facility will provide sufficient cash flow to support its ongoing working capital requirements in the foreseeable future.

Spain

ACS is responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may be required, from the day it became a majority shareholder of Escal for all development and construction through to the inclusion of the underground storage facility into the Spanish gas system. After the system is operational, the Corporation will be responsible for its proportionate share of any new capital investments which we expect will be covered by the Corporation's revenue.

Financing Status of the Castor Project

In 2009, Escal and its shareholders engaged a group of banks to lead a process to obtain project financing for the construction and commissioning of the Castor offshore and onshore facilities including pipelines, interest and guarantees during construction.

On July 22, 2010, the Corporation announced that Escal had completed a 10-year, €1.3 billion project financing with a syndicate of 19 banks. To provide security for the financing, CLP and the other shareholder of Escal have pledged their respective shares in Escal to the banking syndicate. Other than the pledging of its shares, CLP will not be required to provide any equity or debt funds or provide any warranties required by the project finance lenders. Notwithstanding any form by which ACS funds Escal, CLP's interest in Escal will at all times remain at 33.33%, and CLP retains the right to 33.33% of all distributable cash flows.

During the third quarter of the current year, Escal issued shares from treasury with a par value of €6,001 and with an issuance premium of €17.8 million. In order to maintain its 33.33% interest, CLP subscribed for one third of the newly issued par value shares at an aggregate cost of €2,000 (Cdn\$2,739). ACS funded the balance of the par value and the entire share issuance premium. CLP has not recognized the benefit of its 33.33% interest in the issuance premium as the realization and measurement is subject to a number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

Tunisia

At September 30, 2010, Eurogas International had cash and short term investments of \$0.8 million. The partners in the joint venture are pursuing a significant exploration, evaluation and drilling program. The primary plans for the Sfax Permit are to explore and evaluate and if the evaluation results in economically viable reserves, to develop the prospect and leads. In addition, if the results of the horizontal well at Ras-El-Besh indicate potential for development of the Reineche formation, additional Reineche structures within the Sfax Permit could be targeted for further evaluation.

Eurogas International believes that its working capital as well as expected proceeds from the settlement of the Seawolf litigation is sufficient to meet its current requirements. Any additional funding requirements would have to be accessed through debt or equity financings, farmout arrangements and/or bank borrowings. There can be no assurance that such funding or borrowing will be available to Eurogas International.

Outstanding Share Data

As at October 26, 2010, the Corporation had 156,118,453 common shares outstanding. The Corporation has also issued 2,910,000 stock options to acquire common shares of the Corporation with a weighted average exercise price of \$1.16 as well as 355,000 deferred share units.

COMMITMENTS

As part of the Tunisian Hydrocarbon Committee's approval of a two-year extension on the Sfax Permit, which extends the primary term to December 8, 2011, Eurogas International is committed to drilling one new exploration well during the extension period. Eurogas International has not completed its estimate of the costs to meet this commitment, as the costs are partially contingent on the selection of the prospect and location within the Sfax Permit.

RELATED PARTY TRANSACTIONS

There have been no substantive changes in the nature and scope of related party transactions to those described in Note 14 to the 2009 Audited Consolidated Financial Statements and the accompanying management's discussion and analysis.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities. These risks were detailed in the section entitled "Business Risks" in the Corporation's management's discussion and analysis accompanying its 2009 Audited Consolidated Financial Statements. At September 30, 2010, the Corporation had not identified any material changes to the risk factors affecting our business and our approach to managing those risks, except as set out below.

The Corporation has initiated an assessment of the risks associated with the Acquisition. The Corporation is exposed to the following risks as a result of the Acquisition which are in addition to the risks identified in the 2009 management's discussion and analysis.

Volatility of Oil and Natural Gas Prices

The Corporation's financial performance is highly sensitive to prevailing prices of oil and natural gas. Fluctuations in oil or natural gas prices could have a material adverse effect on the Corporation's operations and financial condition, the value of its reserves and its level of spending for oil and gas exploration and development. Prices for oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Corporation's control. The volatility of oil and natural gas prices could have a material and adverse impact on the Corporation's financial performance.

Uncertainty of Reserve Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. The Corporation relied on external evaluation of reserves in its evaluation of the Acquisition along with internally generated analysis. These estimates of proved reserves based on production history, results of exploration and development drilling, prevailing oil and gas prices and other factors, many of which are beyond the Corporation's control may be adjusted. In addition, there are numerous uncertainties in forecasting the amounts and timing of future production, costs, expenses and the results of exploration and development projects. All estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves, the classification of such reserves based on risk of recovery and the measure of discounted future net cash flows, may vary substantially. The Corporation's actual production, taxes and development and operating expenditures with respect to its reserves will likely vary from such estimates and such variances could be material.

Health and Safety

The Corporation's oil and gas production operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, contamination of oil and gas, storms or other adverse weather conditions and other occurrences or incidents, which could result in personal injury or loss of life, damage or destruction of properties, environmental damages, cost of remedying such conditions or incidents, regulatory investigations and penalties and liability to third parties. The Corporation has a health, safety, security, environmental and operational integrity process to mitigate these risks. The Corporation also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the Corporation that management believes to be acceptable. The Corporation believes its liability and property insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

Labour Costs and Labour Relations

Labour costs constitute a significant portion of the operating costs. There can be no assurance that the Corporation will be able to maintain such costs at levels which do not negatively affect its business, results from operations and financial condition. To the extent that labour costs are subject to a collective bargaining agreement, there can be no assurance that future agreements with the employees' unions or the outcome of arbitrations will be on terms consistent with expectations or comparable to agreements entered into by competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges, which could have a material adverse effect on the Corporation's business results from operations and financial condition. A portion of the Corporation's employees are unionized. There can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in operations when their collective bargaining agreement next expires.

Tunisia

Eurogas International capitalized all costs associated with the exploration and evaluation of its Tunisian activities. The recovery of these costs is contingent on the existence of economically recoverable reserves and future profitable production. The business and operations of Eurogas International may require substantial additional capital in order to execute any further exploration and development work.

ACCOUNTING POLICIES AND ESTIMATES

Certain accounting policies are critical to understanding the Corporation's results of operations and financial condition. The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make judgements and estimates on matters that are uncertain. These estimates affect the reported amounts of assets and liabilities as well as revenues and expenses. Changes to these estimates may result in material changes to the Corporation's results of operations or financial condition. The September 2010 Interim Consolidated Financial Statements follow the same accounting principles and methods of application as those described in Note 1 to the Corporation's 2009 Audited Consolidated Financial Statements, with the exception of certain new accounting principles which were adopted as a result of the acquisition of the Lake Erie Assets, as described in Note 2 to the Corporation's September 2010 Interim Consolidated Financial Statements. A summary of the more significant judgements and estimates made by management is provided in the section entitled "Accounting Policies and Estimates" in the Corporation's management's discussion and analysis accompanying the 2009 Audited Consolidated Financial Statements.

FUTURE ACCOUNTING DEVELOPMENTS

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board (the "Canadian AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be differences on recognition, measurement and disclosure that may materially impact the Corporation's consolidated financial statements. The implementation of IFRS will apply to the Corporation's interim and annual consolidated financial statements beginning on January 1, 2011, including the restatement of comparative amounts for 2010.

There have been no significant changes to the structure or timing of the Corporation's IFRS conversion program, which was described in greater detail in the management's discussion and analysis for the three months ended March 31, 2010 ("Q1 MD&A"). The following disclosure is a program progress update for the third quarter ended September 30, 2010.

Analysis of IFRS Accounting Policies Affecting the Corporation

IFRS 1: First-time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP be directly recognized in retained earnings. IFRS 1 provides certain optional exemptions and mandatory exceptions to retrospective application. While the Corporation continues to analyze the various accounting policy choices available under IFRS 1, certain tentative conclusions have been reached. The following is a preliminary assessment of transition exemptions expected to be relevant to the Corporation along with certain tentative conclusions:

- *Oil and Gas Properties* – IFRS 1 allows a first-time adopter using the full cost method of accounting under its previous GAAP to elect to measure oil and gas assets at the date of transition to IFRS on the following basis: (a) exploration and evaluation assets at the amount determined under previous GAAP and (b) assets in the development or production phases at the amount determined under previous GAAP, allocated to the underlying assets pro rata using reserve volumes or reserve values as of that date as more fully described in the Q1 MD&A.

At January 1, 2010, the Corporation's oil and gas properties included only exploration and evaluation assets. Accordingly, and in conjunction with the preparation of the Corporation's IFRS opening balance sheet, the Corporation has tentatively concluded that its oil and gas properties will be initially measured at the amount determined under Canadian GAAP. This initial measurement will be subject to impairment testing under IAS 36, as discussed below. The expected timeline for the completion of this analysis and conclusion has been reset to December 31, 2010.

- *Cumulative Translation Differences* – IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. This will result in the exclusion of translation differences that arose prior to the transition date from gains and losses on a subsequent disposal of a foreign operation. The Corporation expects to elect this exemption, which would reduce cumulative translation amounts of \$264,117 to zero at the transition date with a related increase to opening retained earnings.
- *Share-based Payments* – Under IFRS 1, a first-time adopter is not required to apply *IFRS 2: Share-based Payments* to equity instruments granted on or before November 7, 2002 or granted after November 7, 2002 but vested at the date of transition. The Corporation elected this exemption and only applies IFRS 2 to those equity instruments that were not vested as at January 1, 2010.

IAS 27: Consolidated and Separate Financial Statements

Under Canadian GAAP, the Corporation determines whether it should consolidate an entity using two different frameworks: the variable interest entity ("VIE") and voting control models. Under IFRS, the Corporation will consolidate an entity based solely on control, which is defined as the power to govern the financial and operating policies of an entity to obtain benefit. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control. The Corporation is assessing whether its preferred share interest in Eurogas International meets the definition of control under IFRS.

IAS 36: Impairment of Assets

The Corporation is currently in the process of updating the impairment testing models to comply with the requirements of IAS 36. This process includes reviewing the organizational structure and sources of cash inflows to define the Corporation's cash generating units ("CGUs") and revising its impairment models to reflect the IAS 36 concept of recoverable amount. The Corporation expects to have completed this analysis by December 31, 2010.

IAS 37: Provision, Contingent Liabilities and Contingent Assets

The calculation of the Corporation's estimated asset retirement obligations under Canadian GAAP are discounted using a credit-adjusted interest rate. IFRS will require the obligations to be discounted using a risk-free interest rate. Furthermore, Canadian GAAP does not require subsequent adjustments for market interest changes in the discount rate. IFRS requires that these obligations be revalued at each reporting period at the then prevailing risk-free interest rate. Market related interest rate changes may result in significant volatility of the carrying value of these obligations.

IFRS 2: Share-based Payments

Equity-settled share-based payments are measured at grant-date fair value under both IFRS and Canadian GAAP. However, there are differences related to the timing of expense recognition under the respective standards that impact the Corporation's share-based payment programs. The Corporation has identified the specific differences in accounting for share-based payments under IFRS and amended its share-based payment models in order to quantify the impact upon transition. The Corporation has substantially completed this quantitative exercise and does not expect the changes to have a significant impact on its consolidated financial statements upon transition to IFRS.

IFRS 3: Business Combinations

In June 2010, the Corporation acquired certain oil and gas properties. Under Canadian GAAP, the acquisition was accounted for as an asset acquisition and accordingly, the transaction costs in respect of the transaction were included in the carrying value of the assets acquired. Management has concluded that the nature of the transaction meets the definition of a business combination pursuant to IFRS 3 and, as such, it will be required to restate the allocation of the purchase equation. The Corporation does not expect significant differences to the allocation of the purchase price, other than for transaction costs which, in accordance with IFRS 3, will be expensed in the periods in which the costs are incurred.

Internal Controls and Information Technology Systems

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

Financial Reporting Expertise

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

Next Steps

The Corporation will continue to work on its assessment of the impact of IFRS adoption on the Corporation's accounting policies and related processes in the fourth quarter of 2010. Concurrent with this effort, the conversion committee will continue with its assessment of IFRS impacts on business activities and implement a communication strategy, as appropriate, aimed at all stakeholders, including employees, rating agencies, and shareholders, as may be appropriate to assist in their understanding of its transition to IFRS.

The Corporation will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust the transition and implementation plan accordingly. The Corporation's transition remains aligned to our implementation schedule and it is on track to meet the timelines essential to the changeover.

CONTROLS AND PROCEDURES

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

The Chief Executive Officer and Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during the nine months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. No changes were identified during their evaluation.

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

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be accessed through the System for Electronic Document Analysis and Retrieval (“SEDAR”) website at www.sedar.com and the Corporation’s website at www.eurogascorp.com.

EUROGAS CORPORATION
Consolidated Balance Sheets
(Unaudited)

As at	September 30, 2010	December 31, 2009
ASSETS		
Current		
Cash	\$ 649,045	\$ 263,328
Short term investments (Note 3)	790,228	74,459,138
Accounts receivable	3,957,813	531,510
Prepays	1,093,602	93,377
Loan receivable (Note 4)	588,694	660,302
Taxes recoverable	91,159	91,110
	<u>7,170,541</u>	<u>76,098,765</u>
Property, plant and equipment (Note 5)	151,220,935	79,083
Deferred exploration costs (Note 12)	23,717,081	21,175,897
Equity investment in Escal (Note 11)	3,808,705	4,260,789
Future income taxes	281,280	304,670
	<u>\$ 186,198,542</u>	<u>\$ 101,919,204</u>
LIABILITIES		
Current		
Bank loan (Note 6)	\$ 62,644,540	\$ -
Accounts payable and accrued liabilities	6,048,714	1,367,109
	<u>68,693,254</u>	<u>1,367,109</u>
Asset retirement obligations (Notes 7 and 12)	21,693,239	1,602,591
Non-controlling interest (Note 8)	1,420,284	1,656,250
	<u>91,806,777</u>	<u>4,625,950</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	97,746,065	97,746,065
Contributed surplus (Note 9)	5,147,042	5,120,116
Deficit	(8,469,087)	(5,837,044)
Accumulated other comprehensive (loss) income	(32,255)	264,117
	<u>94,391,765</u>	<u>97,293,254</u>
	<u>\$ 186,198,542</u>	<u>\$ 101,919,204</u>

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

Commitments (Note 16)

EUROGAS CORPORATION

Consolidated Statements of Operations

For the three and nine months ended September 30, 2010 and 2009

(Unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
REVENUES				
Oil and gas sales	\$ 9,752,276	\$ -	\$ 9,752,276	\$ -
Royalties	(1,573,417)	-	(1,573,417)	-
Net sales	8,178,859	-	8,178,859	-
Interest and other	21,764	314,898	200,238	1,344,625
	8,200,623	314,898	8,379,097	1,344,625
EXPENSES				
Cost of sales	2,601,795	-	2,601,795	-
Transportation	191,237	-	191,237	-
General and administrative	1,261,991	931,761	3,682,913	2,961,307
Interest	828,999	(1,115)	1,284,762	3,050
Depreciation, depletion and accretion	3,630,444	154,037	3,685,636	461,456
Foreign exchange loss (gain)	(40,441)	94,015	108,042	386,273
	8,474,025	1,178,698	11,554,385	3,812,086
LOSS FROM OPERATIONS	(273,402)	(863,800)	(3,175,288)	(2,467,461)
Share of earnings (losses) of equity accounted investee (Note 11)	(200)	(1,641)	4,758	(20,992)
INCOME TAX (RECOVERY) PROVISION				
Current	-	(83,003)	-	(82,060)
Future	77,504	12,709	(403,794)	(32,061)
	77,504	(70,294)	(403,794)	(114,121)
NET LOSS BEFORE NON-CONTROLLING INTEREST	(351,106)	(795,147)	(2,766,736)	(2,374,332)
Non-controlling interest (Note 8)	5,581	38,768	134,693	137,568
NET LOSS FOR THE PERIOD	\$ (345,525)	\$ (756,379)	\$ (2,632,043)	\$ (2,236,764)
BASIC AND DILUTED NET LOSS PER SHARE (Note 13)	\$ -	\$ -	\$ (0.02)	\$ (0.01)

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

EUROGAS CORPORATION

Consolidated Statements of Comprehensive Loss

For the three and nine months ended September 30, 2010 and 2009

(Unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
NET LOSS FOR THE PERIOD	\$ (345,525)	\$ (756,379)	\$ (2,632,043)	\$ (2,236,764)
Other comprehensive loss				
Net foreign currency loss on investment in self-sustaining operations, net of taxes of \$57,448 (2009 - \$16,343)	(106,459)	(72,438)	(402,133)	(114,409)
Non-controlling interest (Note 8)	27,999	19,051	105,761	30,089
OTHER COMPREHENSIVE LOSS	(78,460)	(53,387)	(296,372)	(84,320)
COMPREHENSIVE LOSS FOR THE PERIOD	\$ (423,985)	\$ (809,766)	\$ (2,928,415)	\$ (2,321,084)

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

EUROGAS CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2008	\$ 97,520,644	\$ 4,953,770	\$ (2,447,055)	\$ 416,684	\$ 100,444,043
Net loss	-	-	(3,157,976)	-	(3,157,976)
Stock based compensation	-	270,346	-	-	270,346
Other comprehensive loss	-	-	-	(152,567)	(152,567)
Issue costs	(6,579)	-	-	-	(6,579)
Costs of dividend-in-kind	-	-	(232,013)	-	(232,013)
Exercise of options	232,000	(104,000)	-	-	128,000
Balance, December 31, 2009	97,746,065	5,120,116	(5,837,044)	264,117	97,293,254
Net loss	-	-	(2,632,043)	-	(2,632,043)
Stock based compensation	-	26,926	-	-	26,926
Other comprehensive loss	-	-	-	(296,372)	(296,372)
Balance, September 30, 2010	\$ 97,746,065	\$ 5,147,042	\$ (8,469,087)	\$ (32,255)	\$ 94,391,765

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

EUROGAS CORPORATION

Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2010 and 2009

(Unaudited)

	Three months		Nine months	
	2010	2009	2010	2009
OPERATING ACTIVITIES				
Net loss for the period	\$ (345,525)	\$ (756,379)	\$ (2,632,043)	\$ (2,236,764)
Non-cash items in operations				
Share of (earnings) losses from equity accounted investee	200	1,641	(4,758)	20,992
Depreciation, depletion and accretion	3,630,444	154,037	3,685,636	461,456
Gains on short term investments	(1,110)	(313,572)	(159,248)	(1,337,272)
Future income taxes	77,504	12,709	(403,794)	(32,061)
Non-controlling interest	(5,581)	(38,768)	(134,693)	(137,568)
Stock based compensation	10,586	10,586	31,414	322,822
Other	(276,393)	24,620	(168,436)	196,398
	3,090,125	(905,126)	214,078	(2,741,997)
Changes in non-cash working capital (Note 14)	(1,269,375)	(1,288,259)	1,286,529	122,900
	1,820,750	(2,193,385)	1,500,607	(2,619,097)
FINANCING ACTIVITIES				
Costs of dividend-in-kind	-	11,790	-	(298,609)
Issuance of shares, net of issue costs	-	-	-	116,367
Changes in bank loan arrangements, net	(1,243,448)	-	62,644,540	-
Notes receivable	-	-	-	2,311,190
	(1,243,448)	11,790	62,644,540	2,128,948
INVESTING ACTIVITIES				
Redemptions of short term investments, net	532,599	2,514,782	73,825,419	1,850,462
Acquisition of oil and gas properties	(189,612)	-	(133,237,892)	-
Deferred exploration costs	(2,315,320)	(1,081,588)	(4,346,957)	(3,156,109)
	(1,972,333)	1,433,194	(63,759,430)	(1,305,647)
INCREASE (DECREASE) IN CASH	(1,395,031)	(748,401)	385,717	(1,795,796)
CASH, BEGINNING OF PERIOD	2,044,076	1,342,218	263,328	2,389,613
CASH, END OF PERIOD	\$ 649,045	\$ 593,817	\$ 649,045	\$ 593,817

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

EUROGAS CORPORATION

Notes to the Interim Consolidated Financial Statements

As at and for the three and nine months ended September 30, 2010 and 2009

(Unaudited)

Eurogas Corporation (“Eurogas” or the “Corporation”) is an oil and natural gas company with a mandate to create long-term value through the exploration, development, production and marketing of oil and natural gas and other high impact energy projects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). All amounts are in Canadian dollars unless otherwise specified.

These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Corporation’s audited consolidated financial statements as at and for the year ended December 31, 2009 (the “2009 Audited Consolidated Financial Statements”), except as discussed in Note 2 below. The Corporation’s interim consolidated financial statements do not include all disclosures required by Canadian GAAP for annual consolidated financial statements and accordingly, should be read in conjunction with the 2009 Audited Consolidated Financial Statements.

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

Comparative Figures

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

2. ACQUISITION OF ONTARIO OIL AND GAS ASSETS

On June 29, 2010, Dundee Energy Limited Partnership (“DELP”), a wholly-owned limited partnership of the Corporation, acquired a 95% working interest in onshore oil properties and a 65% working interest in offshore gas properties, all located in and around Lake Erie, Ontario. As part of the acquisition, DELP also acquired a 65% interest in certain other tangible assets, including drilling and completion vessels, gas plants and compressor stations and a 100% interest in oil production facilities. The acquisition also provides for ownership of certain offshore and onshore seismic data. The assets were acquired for aggregate cash consideration of \$133,237,892, including estimated transaction costs of \$2,958,291, of which \$189,612 were incurred during the third quarter of this year.

A preliminary allocation of the cash consideration to the various net assets acquired was based on an estimate of their underlying fair values and is summarized below:

Net assets acquired		
Property, plant and equipment*	\$	152,390,751
Prepaid expenses		1,031,501
Asset retirement obligation		(19,699,728)
Future income tax liability		(484,632)
	\$	133,237,892
Aggregate purchase price		
Cash	\$	133,237,892
	\$	133,237,892

*Includes capitalization of \$19,699,728 associated with expected abandonment and reclamation costs.

The allocation of the purchase price to the net assets acquired has not been finalized and will be subject to adjustment.

Capitalized Costs

In addition to acquisition costs, the Corporation incurs development and production costs including geological and geophysical expenses, costs of drilling producing and injection wells, costs associated with production facilities, future asset retirement costs and certain administrative expenses directly related to these development and production activities. Consistent with its exploration and evaluation activities, these costs are accounted for using the full-cost method of accounting for such expenditures, whereby all costs related to these activities are accumulated in separate geographic cost centres.

Expenditures that improve the productivity capacity or extend the life of a property are capitalized to the full-cost accounting pool. Maintenance and repairs are generally expensed as incurred.

Depreciation and Depletion

Capitalized costs associated with resource properties with proved reserves, adjusted for estimated future capitalized costs to be incurred in developing such proved reserves, are depleted over proved reserves using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels (bbls) on an energy equivalent basis at a ratio of 6,000 cubic feet (mcf) of natural gas for one barrel (bbl) of oil. Depletion rates are updated annually unless there is a material change in circumstances, in which case they are updated more frequently. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized.

Amounts recorded for depreciation and depletion are based upon estimates of oil and natural gas reserves and estimates of future costs to develop such proved reserves. By their nature, these estimates are subject to measurement uncertainty, and the effect of changes in such estimates in future years on the consolidated financial statements could be significant.

Revenue Recognition

Revenue associated with the Corporation's production and sale of crude oil, natural gas, and natural gas liquids is recognized when title is transferred to the customer and delivery has taken place. A portion of the Corporation's production and sales activities are conducted jointly with others, and accordingly, these consolidated financial statements reflect only the proportionate interest of the Corporation in such activities.

Revenue from oil and gas sales is presented before royalty payments to third parties, including the government and other mineral interest owners. Royalties on production are recorded using rates in effect under the terms of contracts with such third parties at the time of production.

3. SHORT TERM INVESTMENTS

As at	September 30, 2010	December 31, 2009
Fair value of investments	\$ 790,228	\$ 74,459,138
Weighted average interest rate	0.70%	0.51%
Weighted average days to maturity	350	310

During the three and nine months ended September 30, 2010, the Corporation recognized interest income of \$1,110 and \$159,248, respectively (three and nine months ended September 30, 2009 - \$313,572 and \$1,337,272, respectively), in respect of these investments.

4. LOAN RECEIVABLE

Amounts advanced to Escal UGS S.L. ("Escal"), for utilization by Escal for its underground gas storage project in Spain, are reflected in the Corporation's consolidated financial statements as a loan receivable and are denominated in Euros.

	Canadian dollars	Euros
Balance, December 31, 2008	\$ 3,197,053	€ 1,875,545
Received during the year ended December 31, 2009	(2,311,190)	(1,435,343)
Foreign exchange loss	(225,561)	-
Balance, December 31, 2009	\$ 660,302	€ 440,202
Adjustment during the nine months ended September 30, 2010	(25,539)	(19,886)
Foreign exchange loss	(46,069)	-
Balance, September 30, 2010	\$ 588,694	€ 420,316

5. PROPERTY, PLANT AND EQUIPMENT

As at	September 30, 2010	December 31, 2009
Oil and natural gas assets, Ontario	\$ 154,196,524	\$ -
Accumulated depreciation and depletion	(3,251,065)	-
Office equipment, furniture and fixtures	941,720	701,676
Accumulated depreciation	(666,244)	(622,593)
	\$ 151,220,935	\$ 79,083

Included in property, plant and equipment are recently purchased oil and natural gas properties in and around Lake Erie, Ontario, at their acquired cost of \$152,390,751. Since acquisition, the Corporation has capitalized development and production costs associated with these assets of \$1,805,773.

6. BANK LOAN

On June 29, 2010, DELP established a credit facility in the amount of \$80,000,000 with a syndicate comprised of certain Canadian chartered banks. The credit facility provides DELP with a revolving demand loan, subject to a tiered interest rate structure based on DELP's net debt to cash flow ratio, as defined in the credit facility. Based on DELP's current ratios, draws on the credit facility bear interest, at DELP's option, at either the bank's prime lending rate plus 3.0% for loans or letters of credit, or, for

bankers' acceptances, at the bank's then prevailing bankers' acceptance rate plus 4.0%. DELP is subject to a standby fee of 0.55% on unused amounts under the credit facility.

At September 30, 2010, DELP had drawn \$65,914,540 pursuant to the credit facility, including \$3,270,000 issued in the form of a letter of credit. Of the total amount drawn, \$63,887,988 was in connection with the acquisition of oil and natural gas assets in Lake Erie, Ontario (Note 2), of which \$1,243,448 was subsequently repaid. Available credit under the credit facility at September 30, 2010 was \$14,085,460.

The credit facility is secured against all of the oil and natural gas assets owned by DELP. In addition, the Corporation has assigned a limited recourse guarantee of its units in DELP as further security pursuant to the credit facility. The credit facility is subject to certain covenants, including maintenance of minimum levels of working capital.

Interest expense relating to the credit facility since its establishment on June 29, 2010 was \$1,273,896, including arrangement fees and standby fee charges.

7. ASSET RETIREMENT OBLIGATIONS

In connection with the acquisition of the oil and natural gas assets in Ontario (Note 2), the Corporation recognized a liability representing the expected cash flows required to settle future asset retirement obligations. The undiscounted amount of these obligations were estimated at \$89,051,341, assuming a 2% annual inflation factor. The liability for the expected cash flows related to the obligations, as reflected in the consolidated financial statements, has been discounted at 6.65%.

As required by statute, the Corporation has provided the Ontario Ministry of Natural Resources with a letter of credit in respect of future abandonment costs. At September 30, 2010, the amount of the letter of credit was \$3,270,000 (Note 6).

8. NON-CONTROLLING INTEREST

	Nine months ended		Year ended
	30-Sep-10		31-Dec-09
Opening balance	\$	1,656,250	\$ 1,883,991
Non-controlling interest in results of subsidiaries		(134,693)	(182,587)
Non-controlling interest in comprehensive loss		(105,761)	(54,441)
Non-controlling interest in variable interest entities		4,488	9,287
Closing balance	\$	1,420,284	\$ 1,656,250

9. SHARE CAPITAL

Issued and Outstanding

	Number of shares	Amount
Common shares outstanding, December 31, 2008	155,718,453	\$ 97,520,644
Exercise of stock options	400,000	232,000
Issue costs	-	(6,579)
Common shares outstanding, December 31, 2009 and September 30, 2010	156,118,453	\$ 97,746,065

Contributed Surplus

As at	Nine months ended 30-Sep-10	Year ended 31-Dec-09
Balance, beginning of period	\$ 5,120,116	\$ 4,953,770
Amortization of stock based compensation - stock options	26,926	262,922
Amortization of stock based compensation - deferred share units	-	61,200
Exercise of stock options	-	(104,000)
Exercise of deferred share units	-	(53,776)
Balance, end of period	\$ 5,147,042	\$ 5,120,116

10. STOCK BASED COMPENSATION

The terms of the Corporation's stock based compensation plans are summarized in Note 9 to the 2009 Audited Consolidated Financial Statements.

Stock Option Plan

During the three and nine months ended September 30, 2010, the Corporation recognized stock based compensation expense of \$9,074 and \$26,926, respectively (three and nine months ended September 30, 2009 - \$9,074 and \$253,847, respectively) in respect of outstanding stock options.

A summary of the status of the stock option plan as at September 30, 2010 and December 31, 2009 is as follows:

	September 30, 2010		December 31, 2009	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Opening	3,985,000	\$ 1.26	5,205,000	\$ 1.21
Exercised	-	-	(400,000)	0.32
Forfeited	(1,075,000)	1.54	(820,000)	1.35
Closing	2,910,000	\$ 1.16	3,985,000	\$ 1.26

As at September 30, 2010, options to purchase common shares were exercisable as follows:

Option Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At \$0.54	200,000	133,333	3.05
At \$1.12	2,250,000	2,250,000	1.63
At \$1.65	460,000	460,000	0.66

Deferred Share Unit Plan

As at	September 30, 2010	December 31, 2009
Balance, beginning of period	355,000	315,000
Granted	-	120,000
Redemption	-	(80,000)
Balance, end of period	355,000	355,000

In the second quarter of the prior year, the Corporation granted deferred share units to certain directors and officers. Aggregate compensation expense in respect of the issuance was \$61,200. At September 30, 2010, there were 355,000 deferred share units outstanding.

Stock Based Compensation Expense in Variable Interest Entity

During the second quarter of the prior year, Eurogas International Inc. (“Eurogas International”) awarded stock options to certain of its directors and executive officers to purchase common shares of Eurogas International. In the three and nine months ended September 30, 2010, stock based compensation expense in respect of these stock option awards was \$1,512 and \$4,488, respectively (three and nine months ended September 30, 2009 - \$1,512 and \$7,775).

11. EQUITY ACCOUNTED INVESTMENT IN ESCAL

The Corporation’s 73.7% owned subsidiary, Castor UGS Limited Partnership (“CLP”), holds an interest in the Castor Exploration Permit through its 33% interest in Escal. The remaining interest in Escal is held by ACS Servicios Comunicaciones y Energia, S.L. (“ACS”). The Corporation accounts for its investment in Escal using the equity method.

	Three months		Nine months		Year ended
For the three and nine months ended September 30,	2010	2009	2010	2009	31-Dec-09
Carrying value, beginning of period	\$ 3,927,834	\$ 4,443,783	\$ 4,260,789	\$ 4,522,248	\$ 4,522,248
Investment in equity accounted investee	2,739	-	2,739	-	-
Share of earnings (losses) of equity accounted investee	(200)	(1,641)	4,758	(20,992)	(24,879)
Share of other comprehensive loss from equity accounted investee	(121,668)	(71,634)	(459,581)	(130,748)	(236,580)
Carrying value, end of period	\$ 3,808,705	\$ 4,370,508	\$ 3,808,705	\$ 4,370,508	\$ 4,260,789

In July 2010, Escal entered into a €1.3 billion ten-year financing arrangement with a banking syndicate for the construction and commission of the Castor underground gas storage project in Spain. To provide security for the financing, CLP and ACS have pledged their respective shares in Escal to the banking syndicate.

Borrowings pursuant to the financing arrangement require a minimum equity to debt ratio of 15% to 85%. In accordance with the shareholders’ agreement between the shareholders of Escal, ACS is obligated to provide all equity or quasi-equity funding, as may be required pursuant to the financing arrangement. During the quarter ended September 30, 2010, Escal issued 120 par value shares for €6,001. To maintain its proportionate interest in Escal, CLP acquired 40 of the newly issued shares at a cost of €2,000 (Cdn\$2,739).

In order to comply with minimum equity to debt ratio requirements, ACS also contributed an issuance premium on the newly issued shares of €17,763,760. CLP has not recognized the benefit of its 33% interest in the issuance premium as the realization and measurement is subject to a number of risks and uncertainties, including but not limited to, execution risk associated with the construction of the project, the availability and terms of future financing arrangements and the 50-year life span of the project.

12. INVESTMENT IN EUROGAS INTERNATIONAL INC.

The Corporation holds a \$32,150,000 preferred share interest in Eurogas International. While the Corporation’s investment in Eurogas International is strictly limited to the preferred shares and the Corporation does not hold any common shares in Eurogas International, the nature of the Corporation’s preferred share investment requires the consolidation of the accounts of Eurogas International as it is considered a variable interest entity pursuant to Canadian GAAP. The nature of the preferred shares limits the value of the Corporation’s interest in Eurogas International to the face value of the preferred shares and any accrued interest thereon and outstanding payables to the Corporation.

The obligatory consolidation of Eurogas International has resulted in the following amounts being reflected in the Corporation's consolidated financial statements.

As at	September 30, 2010	December 31, 2009
Cash	\$ 50,689	\$ 185,901
Short term investments	790,228	4,005,040
Accounts receivable	33,159	57,461
Prepays	50,788	77,653
Deferred exploration costs	23,717,081	21,175,897
Accounts payable	(486,777)	(554,163)
Asset retirement obligation	(1,671,274)	(1,602,591)
Non-controlling interest	(13,775)	(9,287)
	\$ 22,470,119	\$ 23,335,911
Represented by:		
Preferred shares	\$ 32,150,000	\$ 32,150,000
Accrued interest	2,771,393	1,809,536
Payable to Eurogas Corporation	564,768	150,882
Accumulated deficit (recognized by the Corporation)	(13,016,042)	(10,774,507)
	\$ 22,470,119	\$ 23,335,911

Deferred Exploration Costs

During the three and nine months ended September 30, 2010, aggregate capitalized costs related to the Tunisian oil and gas properties were \$509,547 and \$2,541,184, respectively (three and nine months ended September 30, 2009 - \$955,258 and \$3,089,185, respectively).

Eurogas International has settled previously announced arbitration proceedings with Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited for US\$12 million to be received by Eurogas International over an 18 month period. The settlement is secured by a bank guarantee from a recognized international bank. Eurogas International's interest in the settlement proceeds is subject to final determination under its joint venture agreement but will be no less than 22.5% of the aggregate proceeds and may reach a maximum of 45%. Settlement proceeds, when received, will be recorded as a reduction in the carrying value of Eurogas International's deferred exploration costs.

Asset Retirement Obligation

Eurogas International, along with its joint venture partners, have estimated that the aggregate costs required in the event of abandonment of the Ras-El-Besh ("REB-3") well in Tunisia is between US\$6.5 million and US\$10 million. Eurogas International recorded an asset retirement obligation in respect of its share of the potential obligation in the event of abandonment of the REB-3 well.

The undiscounted amount of these obligations were estimated at \$1,790,978 (December 31, 2009 - \$1,790,978), assuming a 2% annual inflation factor. The liability for the expected cash flows related to these obligations, as reflected in the consolidated financial statements, has been discounted at 5.7%.

The costs attributed to the Tunisian obligation are expected to be incurred in fiscal 2011.

13. NET LOSS PER SHARE

For the three and nine months ended September 30,	Three months		Nine months	
	2010	2009	2010	2009
Net loss attributable to shareholders	\$ (345,525)	\$ (756,379)	\$ (2,632,043)	\$ (2,236,764)
Weighted average number of common shares outstanding	156,118,453	156,118,453	156,118,453	156,109,662
Basic and diluted net loss per share	\$ -	\$ -	\$ (0.02)	\$ (0.01)

14. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in Non-cash Working Capital

For the three and nine months ended September 30,	Three months		Nine months	
	2010	2009	2010	2009
Accounts receivable	\$ (3,281,696)	\$ 19,997	\$ (3,426,303)	\$ 1,568
Accounts payable and accrued liabilities	1,462,729	(1,209,758)	4,681,605	152,570
Prepays	549,641	(15,495)	31,276	13,976
Taxes recoverable	(49)	(83,003)	(49)	(45,214)
Changes in non-cash working capital	\$ (1,269,375)	\$ (1,288,259)	\$ 1,286,529	\$ 122,900

During the three and nine months ended September 30, 2010 and 2009, the Corporation made the following cash outlays in respect of interest expense and income taxes:

For the three and nine months ended September 30,	Three months		Nine months	
	2010	2009	2010	2009
Interest expense (refund)	\$ 828,999	\$ (1,115)	\$ 1,284,762	\$ 3,050
Income taxes	\$ -	\$ -	\$ -	\$ 36,846

15. RELATED PARTY TRANSACTIONS

Other than as disclosed below, there have been no substantive changes to the description and nature of the Corporation's related party transactions from those described in Note 14 to the 2009 Audited Consolidated Financial Statements.

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of the Corporation's parent, Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. In the three and nine month periods ended September 30, 2010, the Corporation incurred costs of \$211,944 and \$627,118, respectively (three and nine months ended September 30, 2009 - \$147,622 and \$424,107, respectively) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include amounts due to Dundee Corporation and certain subsidiaries of Dundee Corporation. At September 30, 2010, these amounts totalled \$1,146,296.

16. COMMITMENTS

There have been no substantive changes to the description and nature of commitments from those described in Note 15 to the Corporation's 2009 Audited Consolidated Financial Statements.

17. FINANCIAL INSTRUMENTS

Detailed disclosures on the Corporation's financial instruments are included in Note 16 to the 2009 Audited Consolidated Financial Statements.

Fair Value of Financial Instruments

At September 30, 2010, the Corporation's investments in GICs were the only financial instruments carried on the consolidated balance sheet at fair value. The investments are short term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value. The valuation methodology used by the Corporation in its assessment of fair value includes an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Risk Management

The Corporation's financial instruments are exposed to financial risks due to the nature of the Corporation's business and the financial assets and liabilities that the Corporation holds. A detailed description of the nature of these risks is provided in Note 16 to the 2009 Audited Consolidated Financial Statements. In general, for every 50 basis point increase in market interest rates, net earnings before income taxes would increase by approximately \$159,500 and conversely, a 50 basis point decrease in market interest rates would decrease net earnings before income taxes by \$135,000.

As a result of the establishment of a credit facility (Note 6), the Corporation will also be exposed to interest rate risk on bank borrowings. A 50 basis point increase/(decrease) in market interest rates since establishment of the credit facility on June 29, 2010 would increase/(decrease) net earnings before income taxes by \$81,600.

18. FUTURE ACCOUNTING DEVELOPMENTS

Implementation of International Financial Reporting Standards ("IFRS")

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

While IFRS standards are premised on a conceptual framework similar to Canadian GAAP, there are differences in the areas of recognition, measurement and disclosure that may materially impact the Corporation's financial statements. The Corporation is participating in the IFRS implementation committee of its parent company and it has completed an assessment to identify the key accounting differences between Canadian GAAP and IFRS. The impact of these differences to the Corporation's financial results at the time of transition and on implementation is currently being assessed. Based on existing IFRS standards, significant differences to Canadian GAAP that may materially impact the Corporation's financial results include, but are not limited to, accounting for oil and gas assets and impairment of assets. The impact of IFRS to the Corporation at the transition will depend on the IFRS standards in effect at the time, accounting elections that have not yet been made, and the prevailing business and economic facts and circumstances.

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