



2008 ANNUAL REPORT



President's Letter

Dear Shareholders

The incomparable financial and banking crisis which began in 2008 continues and the accompanying deep crisis of liquidity and confidence has driven most of the world's economies into recession. With the dramatic downturn in general demand, we have seen the highest-ever crude oil and other commodity prices plunge along with the market value of oil and natural gas companies.

Although Eurogas was not immune to the global reduction in share values, 2008 was a year of financial consolidation which resulted in \$70 million in treasury at year-end. The year also included good progress in the Castor Underground Gas Storage (UGS) project, and the spinout of our Tunisian assets into an independent company. These positive developments stem from strategic steps taken in 2007 and early 2008, which are worth reviewing.

Partnership with ACS: In December 2007 the Corporation negotiated a strategic partnership with the Spanish companies ACS Group and Enagas S.A. The agreement with ACS contains two financial undertakings which are key to the future strength and viability of Eurogas and of the Castor project. First, the Corporation recovered most of its past investment in Castor, totalling \$43.4 million, which was triggered by the grant of the Castor development concession published in June 2008. Second, ACS undertook to arrange project financing for the Castor project, to provide all further equity funds that may be required by Escal and the lenders, and to provide all financial guarantees and warranties required to be furnished to the Spanish authorities and future lenders as part of the project financing. To date the long term financing and its terms and conditions which will be crucial to the value of Eurogas' 24.6% ownership has not been achieved.

With the participation of ACS, Spain's largest construction company, and Enagas, Spain's largest natural gas utility, we have aligned Eurogas with a team that can construct and operate the largest UGS project in what has been Europe's fastest-growing natural gas market. The global economic slowdown has not lessened Spain's need for strategic natural gas storage, and the government continues to view Castor as urgently needed natural gas infrastructure.

Once operational, Castor can provide the Corporation with cash flows for many years. With the recovery of past investment, the Corporation has minimal capital committed to the Castor project and no further investment obligations.

Rights Offering: Early in 2008, due to uncertainties in the timing of the Castor development concession grant, stemming primarily from national elections in Spain, the Corporation decided



to raise equity funds by way of a rights offering. Eurogas offered 31,143,690 common shares at an issue price of \$0.97 per common share. The offering closed on April 24, 2008 and was fully subscribed with gross proceeds of \$30.2 million.

Spinout of Eurogas International

The Corporation has been involved in two distinct businesses within the energy sector. Castor UGS is a regulated infrastructure project, remunerated under specific regulations, with a stable and long-term rate of return. Tunisia represents traditional oil and natural gas exploration. Each business has a distinctly different risk profile, business structure and funding requirement. Consequently, our Board of Directors decided to separate these businesses into two independent corporate vehicles in order to maximize the potential for each to have the ability to raise its own capital and create shareholder value.

On August 5, 2008, the Corporation completed a restructuring plan by declaring a dividend in kind to its shareholders comprising all of the common stock of Eurogas International Inc. (EI), owner of the Sfax permit and of Innovative Production Services, Ltd. (IPS), which owns the production platform that could be used in future Sfax development. Each shareholder of the Corporation received one newly issued common share of EI for every five shares of the Corporation held. The newly issued shares were placed in escrow pending their public listing. I'm pleased to report that EI began trading on the Canadian National Stock Exchange (CNSX) on March 31, 2009 under the symbol EI.

EI was funded with \$10 million in treasury. In order to complete the transaction in a tax-efficient manner, an independent value for the 22.5 percent participating interest in the Sfax permit and IPS was established and, in consideration for the value of these assets and the \$10 million in cash, EI issued retractable redeemable preferred shares to Eurogas Corporation for a face value of \$32.5 million. The new common shares were issued at a nominal value. EI is a stand alone company with the same initial shareholders as Eurogas Corporation, but with a slightly different board of directors. Mr. Ned Goodman is Chairman and Mr. Jaffar Khan is President and Chief Executive Officer of EI.

Given the initial equity structure of EI and the relative value for each class of equity, Canadian General Accounting Principles require that EI's financial statements be consolidated with Eurogas Corporation until such time as the market value of the common shares represents a certain proportion of total equity.



Summary

Eurogas Corporation is in a strong position, with \$70 million cash and no debt. The Castor project continues to gain momentum with progress in permitting and the formal start of the construction phase. Capital investment on Castor in 2009 is anticipated to be over \$450 million – all of it to be provided by our partner.

We are indebted to the people at Dundee Corporation for their indispensable support. In closing, I would like to thank the many other people who have made the success of the Corporation possible, especially Jim Kirker and Jay Poscente, two of our directors who are not standing for re-election to the Board.

A handwritten signature in black ink, appearing to read "Jaffar Khan", with a long, sweeping horizontal stroke at the end.

Jaffar Khan
President and Chief Executive Officer
April 23, 2009



EUROGAS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
-and-
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2008

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in the Corporation's management's discussion and analysis have been prepared by, and are the responsibility of the management of Eurogas Corporation. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Corporation, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review its consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the consolidated financial statements.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

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

Joanne Ferstman (*Signed*)
Chief Financial Officer

April 22, 2009

Auditors' Report to Shareholders To the Shareholders of Eurogas Corporation

We have audited the consolidated balance sheet of Eurogas Corporation as at December 31, 2008 and the statements of operations, comprehensive loss, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the year then ended were audited by other auditors whose expressed an opinion without reservation in their report dated March 17, 2008.

Toronto, Canada
April 22, 2009

(*Signed*)
PricewaterhouseCoopers LLP
Chartered Accountants
Licensed Public Accountants

EUROGAS CORPORATION
Consolidated Balance Sheets

As at December 31	2008	2007
ASSETS		
Current		
Cash	\$ 2,389,613	\$ 1,180,753
Restricted cash (Note 2)	-	5,124,936
Accounts receivable	610,333	206,306
Investments (Note 3)	75,549,425	-
Prepays and other	61,122	2,155,871
Notes receivable (Note 4)	-	7,639,629
Loan receivable (Note 5)	3,197,053	-
Taxes recoverable	38,286	196,957
	<u>81,845,832</u>	<u>16,504,452</u>
Notes receivable (Note 4)	-	1,222,059
Property, plant and equipment (Note 6)	17,921,163	80,428,862
Equity investment in Escal (Note 2)	4,522,248	-
Future income taxes (Note 13)	167,822	193,127
	<u>\$ 104,457,065</u>	<u>\$ 98,348,500</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 926,963	\$ 8,468,930
Advance from ACS (Note 2)	-	5,124,936
	<u>926,963</u>	<u>13,593,866</u>
Asset retirement obligation (Note 2 and Note 6)	1,202,068	617,688
Non-controlling interest (Note 2 and Note 8)	1,883,991	11,981,554
	<u>4,013,022</u>	<u>26,193,108</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	97,520,644	67,898,790
Contributed surplus (Note 10)	4,953,770	4,117,269
Retained earnings (deficit)	(2,447,055)	139,333
Accumulated other comprehensive income	416,684	-
	<u>100,444,043</u>	<u>72,155,392</u>
	<u>\$ 104,457,065</u>	<u>\$ 98,348,500</u>

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

Contingencies and Commitments (Note 15)

On behalf of the Board,

(Signed)

Derek H.L. Buntain
 Director

(Signed)

Garth A.C. MacRae
 Director

EUROGAS CORPORATION
Consolidated Statements of Operations

For the years ended December 31	2008	2007
REVENUE		
Interest and other	\$ 1,565,145	\$ 777,949
EXPENSES		
General and administrative (Note 7)	2,760,686	2,557,920
Interest (Note 9)	52,418	60,000
Depreciation and accretion	31,453	52,476
Foreign exchange (gain) / loss	(1,743,706)	45,547
	1,100,851	2,715,943
EARNINGS (LOSS) FROM OPERATIONS		
	464,294	(1,937,994)
Dilution loss (Note 2)	(2,302,131)	-
Share of earnings of equity accounted investee (Note 2)	2,487	-
INCOME TAXES (Note 13)		
Current	151,578	(64,070)
Future	(14,296)	105,873
	137,282	41,803
NET LOSS BEFORE NON-CONTROLLING INTEREST		
	(1,972,632)	(1,979,797)
Non-controlling interest (Note 8)	54,745	72,456
NET LOSS		
	\$ (1,917,887)	\$ (1,907,341)
BASIC AND DILUTED		
NET LOSS PER SHARE (Note 12)	\$ (0.01)	\$ (0.02)

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

EUROGAS CORPORATION
Consolidated Statements of Comprehensive Loss

For the years ended December 31	2008	2007
LOSS FOR THE YEAR		
	\$ (1,917,887)	\$ (1,907,341)
Other comprehensive income		
Net foreign currency income on investment in self-sustaining operations, net of a tax recovery of \$80,766 (2007, \$nil) (Note 2)	565,365	-
Non-controlling interest (Note 8)	(148,681)	-
OTHER COMPREHENSIVE INCOME		
	416,684	-
COMPREHENSIVE LOSS FOR THE YEAR		
	\$ (1,501,203)	\$ (1,907,341)

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

EUROGAS CORPORATION
Consolidated Statements of Changes in Shareholders' Equity

As at and for the years ended December 31, 2008 and 2007

	Common Shares (Note 10)	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2006	\$ 67,719,390	\$ 2,066,878	\$ 2,046,674	\$ -	\$ 71,832,942
Net loss	-	-	(1,907,341)	-	(1,907,341)
Stock based compensation	-	2,050,391	-	-	2,050,391
Exercise of options	179,400	-	-	-	179,400
Balance, December 31, 2007	67,898,790	4,117,269	139,333	-	72,155,392
Net loss	-	-	(1,917,887)	-	(1,917,887)
Stock based compensation	-	836,501	-	-	836,501
Other comprehensive income	-	-	-	416,684	416,684
Rights offering, net of costs	29,621,854	-	-	-	29,621,854
Dividend-in-kind (Note 2)	-	-	(668,501)	-	(668,501)
Balance, December 31, 2008	\$ 97,520,644	\$ 4,953,770	\$ (2,447,055)	\$ 416,684	\$ 100,444,043

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

EUROGAS CORPORATION
Consolidated Statements of Cash Flows

For the years ended December 31	2008	2007
OPERATING ACTIVITIES		
Net loss	\$ (1,917,887)	\$ (1,907,341)
Share of earnings from equity accounted investees	(2,487)	-
Depreciation and accretion	31,453	52,476
Dilution loss	2,302,131	-
Future income taxes	(14,296)	105,873
Non-controlling interest	(54,745)	(72,456)
Stock based compensation	767,020	1,261,023
Other	(2,488,867)	-
	<u>(1,377,678)</u>	<u>(560,425)</u>
Change in non-cash working capital (Note 14)	(2,373,098)	3,884,663
Cash (used in) provided by operating activities	<u>(3,750,776)</u>	<u>3,324,238</u>
FINANCING ACTIVITIES		
Issue of share capital, net	29,386,061	-
Repayment of loans receivable from ACS	41,054,973	-
Cash disposed of in ACS Transaction	(2,012,584)	-
Cash distributions to non-controlling limited partners	(969,821)	-
Dividend-in-kind	(829,212)	-
Proceeds on issuance of partnership units	-	430,002
Proceeds on issuance of shares in subsidiary	-	139,445
Advance from ACS	-	5,124,936
Proceeds on exercise of stock options	-	179,400
Cash provided by financing activities	<u>66,629,417</u>	<u>5,873,783</u>
INVESTING ACTIVITIES		
Investment in discounted notes and guaranteed investment certificates	(74,734,507)	-
Proceeds from farmout agreement	11,161,266	-
Investment in property, plant and equipment	(3,221,476)	(21,630,874)
Cash used in investing activities	<u>(66,794,717)</u>	<u>(21,630,874)</u>
DECREASE IN CASH	(3,916,076)	(12,432,853)
CASH, BEGINNING OF YEAR	6,305,689	18,738,542
CASH, END OF YEAR	\$ 2,389,613	\$ 6,305,689
Cash, beginning of year consists of:		
Cash	\$ 1,180,753	\$ 18,738,542
Restricted cash	5,124,936	-
	<u>\$ 6,305,689</u>	<u>\$ 18,738,542</u>

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

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2008 and 2007

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All amounts are in Canadian dollars unless otherwise specified.

Basis of Presentation

Subsidiaries

The consolidated financial statements include the accounts of the Corporation, all of its subsidiaries and a variable interest entity for which the Corporation is the primary beneficiary. Subsidiaries of the Corporation include Castor GP Ltd., Castor UGS Limited Partnership (“CLP”), Amposta Energy Europe AB and Amposta Resources S.L. On May 16, 2008 and following the granting of the development concession (Note 2), the Corporation’s interest in Escal UGS S.L. (“Escal”) was diluted and accordingly, the accounts of Escal were deconsolidated from those of the Corporation and the Corporation has subsequently accounted for Escal using the equity method.

When the Corporation does not own all of the equity of a subsidiary, the minority shareholders’ or limited partners’ interest in the net book value of the subsidiary and in its net earnings are disclosed as separate line items in the consolidated balance sheets and consolidated statements of operations as non-controlling interest.

Equity Accounted Investments

The Corporation accounts for its investment in Escal using the equity method, whereby the Corporation recognizes in earnings its proportionate share of earnings or losses of the underlying investment. An equity accounted investment may be written down when its carrying value exceeds its estimated fair value if, in the option of management, such a decrease is other-than-temporary in nature. Any impairment in equity accounted investments is recorded in earnings in the period in which the impairment is identified.

Participation in Joint Ventures

Substantially all of the Corporation’s exploration, development and production activities are conducted jointly with other entities and accordingly, the consolidated financial statements reflect only the Corporation’s proportionate interest in such activities, unless activity is conducted through a controlled subsidiary, in which case the subsidiary is consolidated, with that portion held by minority shareholders or limited partners, reflected as non-controlling interest.

Consolidation of Variable Interest Entities

The Corporation is required to consolidate any variable interest entity (“VIE”) in which it has the majority of the risks and rewards of ownership. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; or (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2008 and 2007

Pursuant to a reorganization (Note 2), Eurogas International Inc. (“Eurogas International”) was determined to be a VIE for which the Corporation is the primary beneficiary and accordingly, the accounts of Eurogas International have been consolidated in these financial statements.

Use of Estimates

The preparation of 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 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 the financial statements. Actual results could differ materially from those estimates.

Asset retirement obligations, depletion, impairment and ceiling test calculations are based on estimates of oil and natural gas volumes and prices, future costs and other relevant assumptions. Accruals for revenues and expenses are prepared based on estimates when actual amounts are not yet known. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

Foreign Currency Translation

Foreign currency denominated amounts are translated into Canadian dollars using average rates for the year for items included in the consolidated statements of operations, the rates in effect at the consolidated balance sheet dates for monetary assets and liabilities included in the consolidated balance sheets and historical rates for other items.

Translation gains or losses are generally included in the determination of net earnings. Translation gains or losses arising on translation of accounts of foreign subsidiaries, which are considered self-sustaining, are included in other comprehensive income (“OCI”) until there has been a realized reduction in the investment.

Financial Instruments

The Corporation’s financial instruments consist of cash, restricted cash, accounts receivable, investments, prepaids and others, notes receivable, loan receivable, taxes recoverable, accounts payable and accrued liabilities and advance from a non-controlling shareholder. At December 31, 2008 and 2007, the fair value of financial instruments approximated book value due to the near-term maturity or the associated interest rate terms.

The Corporation’s investments include discounted notes and guaranteed investment certificates (“GICs”) issued by a Canadian Schedule I Chartered Bank. These financial instruments are designated as held-for-trading. Held-for-trading financial instruments are measured at fair value, with gains and losses in fair value being recognized in net earnings in the period in which they arise.

Property, Plant and Equipment

Exploration and Development Expenditures

The Corporation intends to follow the full-cost method of accounting for exploration and development expenditures whereby all costs related to the exploration for and development of oil and natural gas reserves, including asset retirement costs, are accumulated in separate country-by-country cost centres. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs, and that portion of general and administrative expenses and interest directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full-cost pool without recognition of a gain or loss. When

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2008 and 2007

such a disposal would alter the depletion and depreciation rate by more than 20 percent, a gain or loss would be recognized.

Pre-development Costs

Eurogas International is currently in the exploratory stage of its drilling programs in Tunisia and capitalizes all costs associated with these programs. The recovery of recorded costs is contingent upon the existence of economically recoverable reserves and future profitable production.

Asset Retirement Obligation

The Corporation recognizes the fair value of legal obligations associated with the retirement and reclamation of tangible long-lived assets when the obligation was incurred, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs are amortized to earnings on a basis consistent with depreciation and accretion of the underlying assets. Subsequent changes in the estimated fair value of the asset retirement obligation are capitalized and amortized over the remaining useful life of the underlying asset. The asset retirement obligation liabilities are carried at their discounted present value and are accreted over time for the change in their present value.

As part of the development concession in respect of the Corporation's natural gas underground storage facility granted during 2008 (Note 2), the asset retirement obligations relating to the underground storage facility were assumed by the Spanish authorities and the Corporation removed this liability from its equity carrying value of its investment in Escal.

Impairment

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

Revenue Recognition

Interest income is recognized on an accrual basis.

Depletion and Depreciation

Depreciation of office equipment and computer equipment is provided for on a 10 percent and 35 percent declining balance basis, respectively.

Stock Based Compensation

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

The Corporation uses the fair value method to account for stock based compensation. The value of stock based compensation, as at the date of grant, is recognized over the applicable vesting period as compensation expense, or is otherwise capitalized to exploration and development pools, with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds received, together with the amount in contributed surplus, are added to common share capital. No expense is recognized for stock options granted before January 1, 2003. At the time these options are exercised, the amount received is recorded as common share capital.

The Corporation does not factor in an estimated forfeiture rate for stock based compensation arrangements, but instead, adjusts for actual forfeitures as a change in estimate as they occur.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2008 and 2007

Income Taxes

All international projects are in the pre-development stage and capitalized costs to date will be available for deduction for income tax purposes in their respective jurisdictions once commercial operations commence.

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

Per Share Information

Basic earnings (loss) per common share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated to reflect the dilutive effect of exercising outstanding share based awards by applying the treasury stock method.

Reclassification of 2007 Amounts

The consolidated financial statements for the comparative year ended December 31, 2007 have been reclassified to conform to the presentation adopted for 2008.

2. DISPOSITIONS AND REORGANIZATIONS

Dilution of Interest in Escal

CLP, through its investment in Escal, holds an interest in the Castor exploration permit. The Castor exploration permit covers the abandoned Amposta Oilfield in Spain, which will be utilized by Escal for its underground gas storage project ("Castor UGS Project").

On December 20, 2007, CLP entered into agreements with ACS Servicios Comunicaciones y Energia, S.L. ("ACS") and Enagas, S.A. (the "ACS Transaction") pursuant to which Escal issued shares to ACS for cash proceeds of \$5,124,936 such that ACS increased its ownership in Escal from 5% to 66.67%, reducing CLP's interest to 33.33% from 95%. The completion of the ACS Transaction was conditional on receipt of the Castor UGS Project development concession, without which the entire ACS Transaction would be reversed and the agreements would terminate. Accounting principles did not permit recognition of the transaction until the contingency had been resolved through the approval of the development concession by the Spanish authorities, which was received on May 16, 2008. Following approval by the Spanish authorities and resolution of the contingency, the Corporation deconsolidated the various assets and liabilities of Escal previously included in the Corporation's consolidated financial statements and recorded an equity investment in Escal. The Corporation incurred a dilution loss of \$2.3 million on the deconsolidation of Escal.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2008 and 2007

Deconsolidation of assets and liabilities of Escal	
Oil and natural gas properties	\$ 55,917,838
Asset retirement obligation	(622,396)
Other net liabilities and non-controlling interest	(503,229)
	<hr/>
	54,792,213
Investment in Escal	
Accounts receivable	491,115
Loan receivable (Note 5)	43,347,184
Equity investment in Escal	3,873,630
Future income taxes	(346,783)
	<hr/>
	47,365,146
	<hr/>
	7,427,067
Cash received from ACS	5,124,936
	<hr/>
Dilution loss	\$ 2,302,131

Following the dilution, Escal became a self-sustaining operation and accordingly, the current method is used for translating the results of its operations, with unrealized foreign currency translation gains or losses being included in accumulated other comprehensive income.

Under the terms of the ACS Transaction, ACS agreed that it would repay to CLP most of the amounts it previously invested in the Castor UGS Project. As at December 31, 2008, CLP had received \$41,054,973 (€25,683,344) pursuant to this agreement. Subsequent to December 31, 2008, CLP received a further payment in the amount of \$2,311,190 (€1,435,343), which is the full amount CLP expects to receive at this time. CLP may receive further amounts up to a maximum of \$4.1 million (€2.6 million), at a future date, should some or all of the expenditures associated with those investments be recognized for remuneration within the Castor UGS Project.

Business Reorganization of Eurogas International and Dividend-in-Kind

On July 10, 2008, the Corporation announced a restructuring plan that would allow for the distribution of its 100% interest in Eurogas International as a dividend-in-kind to shareholders of the Corporation (the "Restructuring"), such that each shareholder of the Corporation received one newly issued common share of Eurogas International for every five shares of the Corporation held. The Restructuring was completed on August 5, 2008 and the newly issued common shares of Eurogas International were placed in escrow for the benefit of shareholders of the Corporation, pending a public listing of Eurogas International common shares, which was completed on March 31, 2009 subsequent to which the common shares of Eurogas International began trading on the Canadian National Stock Exchange ("CNSX").

Prior to completing the Restructuring, the Corporation agreed to exchange \$45,656,834 of amounts owed to it by Eurogas International for additional equity in Eurogas International. The Corporation subsequently exchanged its previous interest in the common shares of Eurogas International for 32,150,000 newly issued Series A Preference Shares and 31,143,635 newly issued common shares of Eurogas International. The Corporation will retain the Series A Preference Shares. The newly issued common shares were distributed to shareholders of the Corporation as part of the Restructuring.

The Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at the rate

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2008 and 2007

of 4% per annum. The Series A Preference Shares may be redeemed, at the option of either Eurogas International or the Corporation, at any time, at a price equal to their face value of \$32,150,000.

The Corporation has indicated that it does not intend to exercise its redemption entitlement within the next year.

The Corporation has determined that its holding of Series A Preference Shares in Eurogas International constitutes a variable interest in Eurogas International, of which the Corporation is a primary beneficiary. Accordingly, the Corporation continues to consolidate the assets and liabilities and the results of operations of Eurogas International, and the Corporation's interest in the Series A Preference Shares of Eurogas International and the dividends paid thereon, have been eliminated in these financial statements.

Costs associated with the dividend-in-kind and the subsequent listing of the Eurogas International common shares are \$829,212, net of taxes of \$160,711 and have been recorded as a charge to retained earnings.

3. INVESTMENTS

As at December 31	2008	Weighted average interest rate	Weighted average remaining days to maturity
GICs	\$ 45,512,726	2.5%	313
Discounted notes	30,036,699	3.5%	150
	\$ 75,549,425		

During 2008, the Corporation acquired certain GICs and discounted notes from a Canadian Schedule I Chartered Bank at a cost of \$74,734,507. These investments are designated as held-for-trading and accordingly, any change in their fair value is recorded in net earnings. During 2008, the Corporation recognized an unrealized appreciation in the fair value of these investments of \$814,918, which has been included in these financial statements as interest and other income.

4. NOTES RECEIVABLE

In 2007 and prior to the ACS Transaction, the Corporation funded the non-controlling limited partners' portion of a cash call in respect of the funding of the Castor UGS Project. The funding was evidenced by way of demand secured promissory notes receivable with a value of \$8,286,191. The notes were secured by a pledge of each of the respective partners' interests in CLP.

During 2008, and following receipt of proceeds pursuant to the ACS Transaction (Note 2), CLP completed a cash distribution to all of its limited partners, of which \$10,098,715 was allocated to the non-controlling limited partners. In accordance with the terms of the demand secured promissory notes, \$9,128,894 of the distribution to non-controlling limited partners was applied to repay amounts previously outstanding pursuant to these demand secured notes receivable, including interest thereon, and the demand secured notes receivable were subsequently cancelled. The balance of the distribution payable to non-controlling limited partners, amounting to \$969,821, was paid in cash.

Interest earned on outstanding notes receivable during 2008 was \$282,102 (2007 - \$331,338).

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2008 and 2007

5. LOAN RECEIVABLE

As a result of the grant of the development concession on May 16, 2008 and the subsequent deconsolidation of CLP's interest in Escal (Note 2), amounts advanced are reflected in the Corporation's consolidated financial statements as a loan receivable from Escal. Previously, these amounts were eliminated as inter-company amounts in the consolidated financial statements. The loan receivable from Escal is denominated in Euros. During the year ended December 31, 2008, \$41,054,973 (€25,683,344) of these amounts were repaid.

		Euro		Canadian
Deconsolidation of Escal (Note 2)	€	27,893,942	\$	43,347,184
Payments received during 2008		(25,683,344)		(41,054,973)
Other adjustments		(335,053)		(500,000)
Foreign exchange gain		-		1,404,842
	€	1,875,545	\$	3,197,053

6. PROPERTY, PLANT AND EQUIPMENT

As at December 31		2008		2007
Oil and natural gas properties:				
Spain	\$	-	\$	54,753,345
Tunisia		17,819,330		25,548,113
		17,819,330		80,301,458
Other:				
Office equipment, furniture and fixtures		832,540		831,366
Accumulated depreciation		(730,707)		(703,962)
	\$	17,921,163	\$	80,428,862

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

As at December 31		2008		2007
Oil and natural gas properties:				
Spain	\$	1,164,493	\$	17,814,684
Tunisia		3,432,483		4,953,588
		4,596,976		22,768,272
Other:				
Office equipment, furniture and fixtures		(25,571)		(13,015)
	\$	4,571,405	\$	22,755,257

Tunisia

Sfax Permit

Eurogas International is currently conducting exploration programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where it holds an interest in the 1.0 million acre Sfax Permit. Eurogas International is a non-operating partner in the permit. Eurogas International's operating partner in the permit is Atlas Petroleum Exploration Worldwide Ltd. ("APEX"). All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations.

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The programs include spending on the development of the Ras-El-Besh (“REB-3”) prospect as well as processing seismic data to evaluate the Salloum prospect.

On April 7, 2008, Eurogas International and APEX entered into a Farmout Agreement with Delta Hydrocarbons B.V. (“Delta”), whereby Delta acquired a 50% participation in the Sfax joint venture and a 50% interest in Innovative Production Services Ltd. (IPS), a corporate vehicle for the purchase and management of oil and gas equipment, reducing the Corporation’s interest to 22.5%, subject to a commitment to spend US\$125 million (the “Spending Commitment”). If Delta does not fulfill the Spending Commitment, Eurogas International’s interest in the permit would revert to 45%. The Spending Commitment includes a cash payment to Eurogas International, and funding Delta’s, as well as Eurogas International’s and APEX’s share of future program expenditures. Once the Spending Commitment has been met, additional program expenditures are to be funded on a pro-rata basis by each partner in order for each partner to retain its proportionate share.

The Farmout Agreement provides for a work program of US\$80 million and provides US\$45 million for the purchase and upgrading of production equipment. These amounts can be re-directed with the consent of all parties. As of December 31, 2008, an estimated US\$104 million of the US\$125 million commitment has been spent, including US\$77 million on the work program and US\$27 million on production equipment.

During the second quarter of 2008, Eurogas International received \$11,161,266, pursuant to the Delta farmout agreement, which has been applied to reduce the carrying value of the Tunisian asset pool.

Aggregate capital expenditures amounted to \$3,423,483 (2007 - \$4,953,588) in the year ended December 31, 2008. The following table shows the components of capital expenditures on Tunisian oil and gas properties for each of the respective periods:

As at December 31	2008	2007
Share of restoration and purchase of assets	\$ 1,792,613	\$ 2,392,329
Share of permit operator costs	352,676	683,322
Seismic activities	168,656	970,517
Ras-El-Besh well expenditures	117,406	323,857
Corporate general and administrative expenditures	815,000	410,077
Capitalized stock based compensation	147,717	71,489
Other expenditures	38,415	101,997
	<u>\$ 3,432,483</u>	<u>\$ 4,953,588</u>

Eurogas International continues to capitalize general and administrative expenditures to Tunisian asset pools as part of the pre-development phase of operations as well as to capitalize stock based compensation costs. Corporate costs are capitalized to Tunisian asset pools in accordance with service agreements.

On January 19, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension to the Sfax Permit, which will extend the primary term to December 8, 2011. The extension becomes official upon being publicly gazetted, which is anticipated to occur in 2009.

Upon completion of drilling and testing the REB-3 well, the joint venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig. The joint venture must either abandon or re-enter within certain timeframes. In the event of abandonment, the aggregate cost is estimated at between US\$6.5 million and US\$10 million.

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Eurogas International has recorded an asset retirement obligation amount of \$1,202,068 in respect of its potential obligations in the event of abandonment of the well.

Farmout Agreement with Anadarko Petroleum Corporation

During May 2006, Eurogas International and APEX entered into a farmout option agreement with Anadarko Petroleum Corporation ("Anadarko"). Anadarko acquired a 520 km² 3-D seismic survey for approximately \$15,500,000 but did not elect to proceed under the terms of the agreement by April 1, 2008 and accordingly, forfeited all rights to conduct work or receive any interest in the farmout areas.

7. GENERAL AND ADMINISTRATIVE EXPENSES

Included in general and administrative expenses during 2008 are severance costs of \$650,750 relating to a corporate reorganization. As part of the reorganization, the Corporation intends to enter into a services arrangement with Dundee Resources Ltd., a wholly owned subsidiary of the Corporation's parent, Dundee Corporation ("Dundee"), pursuant to which Dundee Resources Ltd. will provide the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities.

8. NON-CONTROLLING INTEREST

The following table shows the components of non-controlling interest:

As at and for the year ended December 31	2008	2007
Balance, beginning of year	\$ 11,981,554	\$ 3,946,704
Cash calls in CLP	-	7,793,646
CLP distribution to partners in cash	(969,821)	-
CLP distribution applied to notes receivable	(9,128,894)	-
Issuance of shares in Escal	-	139,445
Effect of change in ownership of non-controlling interest	-	174,215
Non-controlling interest in results of subsidiaries	(54,745)	(72,456)
Non-controlling interest share of other comprehensive income	148,681	-
Effect of deconsolidation of Escal	(92,784)	-
Balance, end of year	\$ 1,883,991	\$ 11,981,554

9. RELATED PARTY TRANSACTIONS

Eurogas had a \$6,000,000 revolving term credit facility with Dundee. The credit facility bore interest at the rate of Canadian dollar prime plus 2 percent per annum. Interest was payable monthly, in arrears. The credit facility was secured by a general security agreement over the assets of the Corporation.

Interest expense on amounts drawn on the facility and standby fees related to the credit facility totalled \$52,418 (2007 - \$60,000) during the year ended December 31, 2008. During 2008, all amounts borrowed pursuant to the facility were repaid and the facility was cancelled.

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Dundee had previously provided a commitment letter to the Corporation and Escal in order to satisfy the Spanish authorities of Escal's financial ability to undertake the Castor UGS Project. Dundee had committed to either arranging for, or providing financing for, the project of €45 million (\$72 million) until the projected completion of project financing as well as for the additional estimated equity requirement of €25 million (\$40 million), if then required. Following the granting of the development concession on May 16, 2008, Dundee's obligation pursuant to the commitment letter was cancelled.

10. SHARE CAPITAL

Issued and Outstanding:

	Number of Shares	Amount
Common shares, December 31, 2007	124,574,763	\$ 67,898,790
Rights Offering	31,143,690	29,621,854
Common shares, December 31, 2008	155,718,453	\$ 97,520,644

On April 24, 2008, Eurogas completed a Rights Offering pursuant to which it issued 31,143,690 common shares at a subscription price of \$0.97 per share. Costs relating to the offering were \$823,318 and have been reported, net of taxes of \$227,237 against proceeds received.

Contributed Surplus:

A summary of the changes in the Corporation's contributed surplus is as follows:

As at and for the years ended December 31	2008	2007
Balance, December 31, 2007	\$ 4,117,269	\$ 2,066,878
Share options	623,701	1,951,691
Deferred share units	212,800	98,700
Balance, December 31, 2008	\$ 4,953,770	\$ 4,117,269

11. STOCK BASED COMPENSATION

Share Option Plan

The Corporation has established a share option plan under which directors, officers, employees and consultants are granted options to purchase common shares of the Corporation. The number of shares issuable under the plan cannot exceed 12,000,000 in total, and the number of shares issuable to any one person under the plan cannot exceed 5 percent of the total number of common shares outstanding. The exercise price of each option equals the market price of the Corporation's stock on the date of grant and options are issued with a five-year expiry term. A summary of the status of the share option plan is as follows:

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	2008		2007	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
Opening	6,005,000	\$ 1.27	4,605,000	\$ 1.10
Granted	200,000	0.54	2,750,000	1.12
Exercised	-	-	(1,150,000)	0.16
Forfeited	(1,000,000)	1.47	(200,000)	1.65
Closing	5,205,000	\$ 1.21	6,005,000	\$ 1.27

As at December 31, 2008, options to purchase common shares were exercisable as follows:

Option Price	Weighted Average Exercise Price	Options Outstanding	Options Exercisable	Remaining Contractual Life (Years)
\$0.32 to \$0.54	\$ 0.39	600,000	466,666	1.97
\$1.12 to \$1.26	\$ 1.14	3,125,000	2,241,664	3.05
\$1.50 to \$1.76	\$ 1.67	1,480,000	1,506,667	1.53
		5,205,000	4,214,997	

On October 16, 2008, the Corporation granted 200,000 share options at an exercise price of \$0.54 per share option. The share options have a life of 5 years with one third vesting immediately, the next third vesting on the first year anniversary and the balance vesting on the second year anniversary. The estimated fair value of share options issued during the year was determined using the Black-Scholes model with the following weighted average assumptions:

As at December 31	2008	2007
Risk-free interest rate	7.0%	4.6%
Expected hold period to exercise	5 years	5 years
Volatility in the price of the Corporation's shares	75.4%	75.4%
Dividend yield	0.0%	0.0%

Stock based compensation expense of \$554,220 (2007 - \$1,162,323) was recognized in association with share options during the year ended December 31, 2008. In addition, a total of \$78,037 (2007 - \$789,368) was capitalized to international asset pools during the year ended December 31, 2008.

Deferred Share Unit Plan

During 2006, the Corporation established a deferred share unit plan ("DSUP") for eligible participants. The Compensation Committee of the Board of Directors administers the DSUP, which is intended to provide participants with a long-term incentive tied to the long-term performance of the Corporation's common shares. Once granted, participants will be entitled to payment in respect of units granted only when the participant is no longer employed or otherwise associated with the Corporation. Discretionary awards will be based on certain criteria, including services performed or to be performed.

The total number of deferred share units cannot exceed 4,000,000. As at December 31, 2008, 3,685,000 (2007 - 3,825,000) common shares remain available for grant under the DSUP. The DSUP provides for settlement of awards in cash or shares of the Corporation, at the Corporation's discretion. Accordingly, the Corporation has recorded the obligation to settle the awards as contributed surplus.

Stock based compensation expense of \$212,800 (2007 - \$98,700) related to deferred share units was recognized during the year ended December 31, 2008.

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Notes to the Consolidated Financial Statements

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12. NET LOSS PER SHARE

Per share amounts are computed by dividing the loss for the year by the weighted average number of common shares outstanding of 145,991,383 (2007 – 124,122,845). The effect of common share purchase options and deferred share units on the net loss per share in 2008 and 2007 is not reflected, as to do so would be anti-dilutive.

13. INCOME TAXES

The Corporation's future Canadian income tax assets are as follows:

As at December 31	2008	2007
Future income tax assets		
Share issue costs	\$ 234,447	\$ 112,523
CEC	171,277	16,315
Property, plant and equipment	44,986	51,414
Other	-	12,875
Total future income tax assets	450,710	193,127
Future income tax liabilities		
Partnership deferred income	114,188	-
Equity accounted investment	87,934	-
Other comprehensive income	80,766	-
Total future income tax liabilities	282,888	-
Future income tax assets	\$ 167,822	\$ 193,127

The provision for income taxes differs from the amount computed by applying the combined Canadian federal and provincial tax rate of 29.50 percent (2007 – 32.12 percent) to the loss from operations before taxes of \$1,835,350 in 2008 (2007 - \$1,937,994). The difference results from the following:

For the years ended December 31	2008	2007
Computed expected recovery of income taxes	\$ (541,428)	\$ (622,484)
Effect on taxes of:		
International operations	246,046	160,757
Non deductible expenses	227,957	419,496
Non taxable dilution loss	419,935	-
Non taxable revenue	(266,472)	-
Other differences	51,244	84,034
Provision for income taxes	\$ 137,282	\$ 41,803
Represented by:		
Current tax expense (recovery)	\$ 151,578	\$ (64,070)
Future tax (recovery) expense	(14,296)	105,873
	\$ 137,282	\$ 41,803

Costs related to international operations are considered pre-development costs and are therefore not subject to tax.

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14. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	2008	2007
Accounts receivable	\$ 87,088	\$ (7,842)
Prepays and other	(316,931)	(1,509,662)
Joint venture receivable	-	463,382
Accounts payable and other accrued liabilities	(2,143,255)	4,938,785
Change in non-cash working capital	\$ (2,373,098)	\$ 3,884,663

The Corporation made the following cash outlays in respect of interest expense and income taxes:

For the years ended December 31	2008	2007
Interest expense	\$ 52,418	\$ 60,000
Income taxes	\$ (7,093)	\$ 166,982

During the year ended December 31, 2008, distributions to the non-controlling limited partners of CLP in the amount of \$9,128,894 was used to reduce amounts owing on notes receivable. Accordingly, amounts paid have been excluded from cash flow.

15. CONTINGENCIES AND COMMITMENTS

Amounts that will be received by the Corporation under the terms of the ACS Transaction and the Farmout Agreement (Notes 2, 5 and 6) are subject to adjustment based on regulatory acceptance of the underlying project expenditures. The Corporation does not believe that any adjustment would be material to the financial position and results of operations of the Corporation, however, any adjustment would be charged to operations in the period that such adjustment is made.

Subsequent to December 31, 2008, the Tunisian Hydrocarbon Committee approved a two-year extension on the Sfax Permit, which will extend the primary term to December 8, 2011. The extension requires that one new exploration well be drilled during the extension period.

16. FINANCIAL INSTRUMENTS

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The following discussion reviews material financial risks, quantifies certain of the associated exposures, and explains how these risks and the Corporation's capital are managed.

Market Risk

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

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Fair Value Risk

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

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation incurs interest rate risk through its discounted notes and GICs and, to a lesser extent, its cash position. The investments in discounted notes and GICs are designated as held-for-trading financial instruments and are measured at fair value. As a result, the effect of interest rate changes are recognized in net income in the period incurred. For every 50 basis point change in market interest rates, net income before income taxes related to discounted notes and GICs would change by approximately \$115,000. Notes receivable are at fixed rates of interest and therefore are not subject to interest rate risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation periodically has accounts receivable and accounts payable denominated in foreign currencies, primarily Euros and US dollars. As a result of the deconsolidation of Escal (Note 2), the Corporation has a Euro denominated loan to Escal. A 3% change in the foreign exchange translation rate of Euros to Canadian dollars relating to these activities would result in a change to net earnings of approximately \$66,000.

The Corporation's equity investment in Escal is considered a self-sustaining operation and the current method is used for translating the results of its operations with unrealized foreign currency translation adjustments included in OCI. A 3% change in the foreign exchange translation rate of Euros to Canadian dollars would change the value of the Corporation's equity investment in Escal by approximately \$52,000, with the unrealized foreign exchange amount recognized in OCI.

The Corporation also has certain cash balances that are denominated in US dollars in order to facilitate US dollar transactions. The Corporation does not incur significant currency risk in respect of these balances, as the amount of cash held in foreign currency is not significant.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash, notes receivable, discounted notes and GICs and, to a lesser extent, accounts receivable. The notes receivable are secured by units in CLP. The maximum exposure to credit risk is equal to the carrying value of these financial instruments less the value of any security held.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's financial liabilities consist of accounts payable. The Corporation's line of credit was repaid in full on April 30, 2008. The Corporation mitigates liquidity risk by planning its project expenditures and securing financing facilities in advance of undertaking significant commitments.

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Capital Management

The Corporation defines the capital that it manages as its shareholders' equity. The Corporation's objectives when managing capital include ensuring that the Corporation is able to meet its financial obligations as they become due and ensuring that the Corporation has sufficient capital available to benefit from opportunities, should they arise in order to ensure shareholder value.

17. CHANGES IN ACCOUNTING POLICIES ADOPTED IN 2008

As of January 1, 2008, the Corporation adopted the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862 "*Financial Instruments - Disclosures*", 3863 "*Financial Instruments - Presentation*" and 1535 "*Capital Disclosures*". The new standards include enhanced disclosure requirements on the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. In addition, Section 1535 requires qualitative and quantitative disclosures that enable the users to evaluate the Corporation's objectives, policies and processes for managing capital. The impact of these standards is disclosed in note 16 of these consolidated financial statements.

18. FUTURE ACCOUNTING CHANGES

Asset Recognition including Goodwill and Intangible Assets

Amendments to CICA Handbook Section 1000, "*Financial Statement Concepts*" and new CICA Handbook Section 3064, "*Goodwill and Intangible Assets*", which replaces CICA Handbook Section 3062, "*Goodwill and Other Intangible Assets*", have been issued and apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. This guidance reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. Under the amendments to CICA Handbook Section 1000, effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The Corporation is currently assessing the impact of this new accounting guidance.

Business Combinations

In January 2009, the CICA issued CICA Handbook Section 1582, "*Business Combinations*", Section 1601, "*Consolidations*", and Section 1602, "*Non-controlling Interests*". These sections replace the former CICA Handbook Section 1581, "*Business Combinations*" and Section 1600, "*Consolidated Financial Statements*" and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "*Business Combinations*" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent

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to the corresponding provisions of International Accounting Standard 27, "*Consolidated and Separate Financial Statements*" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. Section 1582, Section 1601 and Section 1602 must be adopted concurrently. The Corporation is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards

In February 2008, the CICA AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption being allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant 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 financial statements beginning on or after January 1, 2011, including the restatement of comparative amounts for 2010. While the Corporation has begun to assess the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

19. SUBSEQUENT EVENTS

On January 27, 2009, Delta notified Eurogas International and APEX of its desire to market its participating interest under the Delta farmout agreement. Delta is obligated under the relevant agreements to the Spending Commitment of US\$125 million. If the total Spending Commitment is not attained, Delta's participating interest is subject to reversal. On April 20, 2009, APEX, as operator of the joint venture, served notice to Delta for failure to perform its obligations under the Delta farmout agreement and to meet its cash calls. Should Delta not remedy the failure on a timely basis, APEX and Eurogas International have the option of requiring Delta to reassign its participating interest back to APEX and Eurogas International.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas Corporation ("Eurogas" or the "Corporation") is a Canadian-based company whose common shares are traded 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 development of an underground natural gas storage facility in Spain and in certain exploration programs for oil and natural gas offshore Tunisia.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of April 22, 2009 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2008 (the "2008 Audited 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, stock market volatility, the ability to access sufficient capital from internal and external sources, and other risk factors discussed or referred to in the section entitled "Business Risks" in this MD&A and other documents filed from time to time with the securities administrators, all of which may be accessed at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what resulting benefits the Corporation will derive. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

SPANISH OIL AND GAS PROJECTS

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 interest of 24.6% in the Castor UGS Project. The Castor Exploration Permit, which is owned directly by Escal, covers the abandoned Amposta Oilfield, which will be utilized by Escal for its underground gas storage project ("Castor UGS Project"). Upon completion, the Castor UGS Project will become a regulated utility forming a crucial element of Spain's energy infrastructure.

Business Reorganization of Escal

On December 20, 2007, CLP entered into agreements with ACS Servicios Comunicaciones y Energia, S.L. ("ACS") and Enagas, S.A. (the "ACS Transaction") pursuant to which Escal issued shares to ACS for cash proceeds of \$5.1 million such that ACS increased its ownership in Escal from 5% to 66.67%, reducing CLP's interest to 33.33% from 95%. The completion of the ACS Transaction was conditional on receipt of

the Castor UGS Project development concession that was received on May 16, 2008, at which time the Corporation deconsolidated the various assets and liabilities of Escal previously included in the Corporation's consolidated financial statements and recorded an equity investment in Escal. The Corporation incurred a dilution loss of \$2.3 million on the deconsolidation of Escal.

Following the dilution, Escal became a self-sustaining operation and accordingly, the current method is used for translating the results of its operations, with unrealized foreign currency translation gains or losses being included in accumulated other comprehensive income.

Under the terms of the ACS Transaction, ACS agreed that it would repay to CLP most of the amounts it previously invested in the Castor UGS Project. As at December 31, 2008, CLP had received \$41.1 million (€25.7 million) pursuant to this agreement. Subsequent to December 31, 2008, CLP received a further payment in the amount of \$2.3 million (€1.4 million), which is the full amount CLP expects to receive at this time. CLP may receive further amounts up to a maximum of \$4.1 million (€2.6 million), at a future date, should some or all of the expenditures associated with those investments be recognized for remuneration within the Castor UGS Project

In 2007, the Corporation had funded the non-controlling limited partners' portion of a cash call in respect of the funding of the Castor UGS Project prior to the ACS Transaction, by way of demand secured promissory notes receivable with a value of \$7.4 million. The notes were secured by a pledge of each of the respective partners' interests in CLP. During 2008, and following receipt of proceeds pursuant to the ACS Transaction, CLP completed a cash distribution to all of its limited partners in an amount sufficient to repay amounts previously outstanding pursuant to these demand secured notes receivable and the demand secured notes receivable were cancelled.

The Castor Underground Gas Storage Project

The Castor UGS Project and facility will provide Spain with urgently needed gas storage capacity by converting the abandoned Amposta oilfield to gas storage operations. The project consists of an underground gas storage reservoir that lies at a depth of 1800 meters 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 UGS Project is Cdn\$2 billion, with gas injection scheduled to begin in 2012.

The Castor underground gas storage facility's anticipated significant working gas storage capacity of 1.3 billion cubic metres is expected to provide a reserve for seasonal and extraordinary peak demands, as well as the ability to respond to normal daily 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. Upon completion, the Castor UGS Project and facility will become a regulated utility forming a crucial element of Spain's energy infrastructure.

Regulatory Development

The Development Concession for the Castor UGS Project received official approval from the Council of Ministers of the Spanish government on May 16, 2008 and was published in the official bulletin as Royal Decree 855/2008 on June 5, 2008. The Development Concession is the primary regulatory approval needed to develop the Castor UGS Project. It establishes the Castor UGS Project within the regulatory framework as entitled to receive remuneration.

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 concession and the start-up of the facility, which would provide early cash flow. After 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 concession (30 years plus two extensions of 10 years each). Return on investment is based on the net

investment times 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. The remuneration rate would likely be approximately 7.5% to 8%. As with repayment of capital, after 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 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.

A number of secondary permit applications were filed on August 4, 2008, including:

- Environmental Impact Study, in order to secure the Environmental Impact Assessment, addressed to the Ministry of the Environment (Central Government).
- Integrated Environmental Authorization, related to the land on which the onshore plant will be located, addressed to the Department of the Environment, Government of the Region of Valencia.
- Concession for the Occupation of the Maritime-Terrestrial Public Domain, for the pipeline and offshore platforms, addressed to the Ministry of the Environment (Central Government).
- Public Utility Statement, to facilitate the acquisition of land required to build the facilities, addressed to the Ministry of Industry (Central Government).
- Administrative Authorization, for all facilities, addressed to the Ministry of Industry (Central Government).

All of these secondary permits were subject to a single public review period of 30 working days, whereby all the documents related to the permits were available to the public for review and comment in three locations: Vinaros, Castellon and Valencia. The public review period started September 17, 2008 and finished October 23, 2008.

Comments were collected by the representative of the Central Government in Castellon and distributed to concerned parties. None of the comments were seen as providing additional hurdles or delaying the project. Escal provided the government with a written response to all comments. This review process completed, the Castellon regional office forwarded the documents to the Ministry of Industry. The next regulatory step, to be completed by the Ministry of the Environment, will be the issue of the Environmental Impact Assessment, which provides environmental approval for the project and is required before the other secondary permits will be finalized.

Onshore Site

A new site for the proposed onshore facilities was approved by the local authorities in early 2008. The procurement of land for the onshore facilities is nearing completion. The purchase, by Escal, of 80% of the needed land is complete and the remaining 20% is awaiting registration of titles. Escal intends to retain the land from the original site for the time being. Land use agreements for the right of way to route the subsea pipeline from the shore to the site of the onshore facilities are being negotiated with local landowners. Although the development concession gives the project the right of expropriation to assure the needed right of ways are achieved, Escal expects these negotiations will result in a satisfactory routing in a more timely manner.

Engineering, Procurement, Construction

Escal has submitted its budget to the Ministry of Industry with planned 2009 spending of \$467 million (€274 million). The budget outlines spending for permitting, engineering, procurement and land acquisition. Escal has issued invitations to tender for facilities such as the wellhead platform and the process platform, as well as long lead time items including compressors, drying units, a jackup rig and equipment related to the wells such as casing and wellhead and production trees. These will be followed with additional invitations to tender for items including the subsea pipeline. The formal Notice to Proceed was issued by ACS to the contractors on March 18, 2009.

In accordance with the terms of the ACS Transaction, ACS is responsible for providing equity and arranging project financing for the Castor UGS Project, including providing all guarantees that may be required, from the day it became a majority shareholder of Escal through to the completion of the Castor development as currently designed and approved by the government and the inclusion of the underground storage facility into the Spanish gas system, after which Eurogas will be responsible for its proportionate share of any new capital investment.

Enagas has contracted and will pay for the construction of the pipeline needed to integrate the Castor UGS Project into the national gas system running between the Castor onshore facility and the national gas pipeline grid.

TUNISIAN OIL AND GAS PROJECTS

Eurogas International Inc. is currently conducting exploration and evaluation programs for oil and natural gas offshore Tunisia in the Gulf of Gabes.

Business Reorganization of Eurogas International Inc. (“Eurogas International”)

On July 10, 2008, the Corporation announced a restructuring plan that would allow for the distribution of its 100% interest in Eurogas International as a dividend-in-kind to shareholders of the Corporation (the “Restructuring”), such that each shareholder of the Corporation received one newly issued common share of Eurogas International for every five shares of the Corporation held. The Restructuring was completed on August 5, 2008 and the newly issued common shares of Eurogas International were placed in escrow for the benefit of shareholders of the Corporation, pending a public listing of Eurogas International common shares which was completed on March 31, 2009 subsequent to which Eurogas International began trading on the Canadian National Stock Exchange (“CNSX”).

Prior to completing the Restructuring, the Corporation agreed to exchange \$45.7 million of amounts owed to it by Eurogas International for additional equity in Eurogas International. The Corporation subsequently exchanged its previous interest in the common shares of Eurogas International for 32,150,000 newly issued Series A Preference Shares and 31,143,635 newly issued common shares of Eurogas International. The Corporation will retain the Series A Preference Shares. As noted previously, the newly issued common shares were distributed to shareholders of the Corporation as part of the Restructuring. Additional information regarding Eurogas International may be obtained at www.sedar.com under the profile for Eurogas International.

The Series A Preference Shares

The Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at the rate of 4% per annum. The Series A Preference Shares may be redeemed, at the option of either Eurogas International or the Corporation, at any time, at a price equal to their face value of \$32.15 million. The Corporation has indicated that it does not intend to exercise its redemption entitlement within the next year.

The Corporation has determined that its holding of Series A Preference Shares in Eurogas International constitutes a variable interest in Eurogas International. Furthermore, the Corporation has concluded that it meets the definition of a primary beneficiary of the variable interest entity and therefore, the Corporation continues to consolidate the assets and liabilities, and the results of operations of Eurogas International in its 2008 Audited Consolidated Financial Statements. Accordingly, the Corporation’s interest in the Series A Preference Shares of Eurogas International, and the dividends paid thereon have been eliminated in the Corporation’s 2008 Audited Consolidated Financial Statements.

Costs associated with the Restructuring, which have been estimated at approximately \$0.7 million, have been recorded in the Corporation’s 2008 Audited Consolidated Financial Statements as a charge against retained earnings.

Sfax Permit

Eurogas International is currently conducting exploration programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where it holds an interest in the 1.0 million acre Sfax Permit. Eurogas International is a non-operating partner in the permit. All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations.

The Sfax Permit lies within a hydrocarbon fairway that trends from offshore Libya, through the Gulf of Gabes, to onshore Tunisia and includes major oil and gas fields. The Sfax Permit is surrounded by producing oil and gas fields to the west, north and east, including the 330 million barrel Ashtart oil field that lies along the southeast boundary. Previous operators drilled and flow tested oil from three separate structures on the prospect at daily equivalent rates of 612, 1,200 and 1,800 barrels of oil per day. At that time, these structures were considered sub-economic to those operators and the wells were abandoned.

Following the granting of the Sfax Permit in 2004, Eurogas International and its then sole joint venture and operating partner, Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), acquired a new 3-D seismic program over 348 square kilometres of the permit, which included the known Ras el Besh and Jawhara prospects that tested oil. The seismic provided an improved understanding of the geology.

During 2005, the Sfax Permit was converted to an exploration permit under the terms of a production sharing contract. The four year permit commenced December 9, 2005 and included a commitment to undertake seismic work, which has been completed, and to drill one exploration well prior to December 9, 2009. The REB-3 well (see “Ras El Besh”) was the commitment well for the Sfax Permit. On January 19, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension to the Sfax Exploration Permit that will extend the primary term to December 8, 2011. The extension becomes official upon being publicly gazetted, which is anticipated to occur in 2009. The extension requires that one new exploration well be drilled during the extension period. Eurogas International is analyzing the technical data to determine which prospect to drill and to estimate the cost to fulfill this obligation.

Ras El Besh

In December 2005, Eurogas International and APEX applied for a development concession over the Ras El Besh prospect (the “REB Exploitation Concession”) a 16,802 acre area carved out of the Sfax Permit. The application was accepted by the Hydrocarbon Committee of the Tunisian government in July 2006 and the concession was gazetted on September 5, 2008 following commencement of drilling the REB-3 well on June 16, 2008. An exploitation concession is granted for a period of 30 years with a condition that concession development work starts within two years from the date of award. The REB3 well signified commencement of development.

The REB-3 well was the first well to be drilled under the Delta farmout agreement (see “Agreement with Delta Hydrocarbons B.V.” below) and reached total depth of 2,204 metres. Well logs and formation pressure tests identified the presence of oil in a high quality, 10-metre thick carbonate interval in the Reineche formation, which was subsequently confirmed by down-hole sampling. The well was plugged back and a second wellbore (REB3H-ST1) was drilled horizontally to 3,284 metres. The sidetrack intercepted the top of the Reineche formation in a lower fault block approximately 1,000 meters to the northwest of the REB-3 well then drilled horizontally through 400 meters of porous formation. The horizontal section was tested and produced over 1,000 barrels per day of fluid with a 10% cut of 27° API oil. Oil has now been tested at two locations 1,000 metres apart.

Upon completion of drilling and testing the REB-3 well, the Joint Venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig, both of which were done. Agreement by the Tunisian government was subject to the re-interpretation and remapping of seismic data subsequent to which Eurogas International must either re-enter or abandon the

well. If the decision is made to abandon the well, the Joint Venture partners may have to adjust the 2009 Work Program and budget accordingly.

Tunisian Asset Pool

In 2008, an aggregate of \$3.4 million (2007 - \$5.0 million) was capitalized to the Tunisian asset pool. Beginning in April 2008, and pursuant to the Delta farmout agreement (see below), ongoing project costs were funded by Delta, significantly reducing the direct expenses incurred by Eurogas International during the current year.

As at December 31	2008	2007
Share of restoration and purchase of assets	\$ 1,792,613	\$ 2,392,329
Share of permit operator costs	352,676	683,322
Seismic activities	168,656	970,517
Ras-El-Besh well expenditures	117,406	323,857
Corporate general and administrative expenditures	815,000	410,077
Capitalized stock based compensation	147,717	71,489
Other expenditures	38,415	101,997
	\$ 3,432,483	\$ 4,953,588

Agreement with Delta Hydrocarbons B.V.

On April 8, 2008, Eurogas International and APEX announced that they had entered into a series of agreements (the “Delta Agreements”) with Amsterdam based Delta Hydrocarbons B.V. (“Delta”) whereby Delta acquired a 50% interest in the Sfax Permit and the Ras El Besh Concession (the “Joint Venture”) and a 50% interest in Innovative Production Services, Ltd. (“IPS”) in exchange for the expenditure by Delta of an aggregate of US\$125 million. Delta’s required spending included a cash payment to Eurogas International and APEX and funding Delta’s, as well as Eurogas International’s and APEX’s share of future Joint Venture and IPS expenditures, including future drilling, exploration and development costs and the acquisition of facilities as and when required. The agreement received all regulatory approvals.

As a result of the Delta Agreements, Eurogas International’s and APEX’s interest in both the Joint Venture and IPS was reduced to 22.5% and 27.5%, respectively. After Delta funds US\$125 million, the project reverts to joint venture participation and Eurogas International will be required to fund its pro-rata share of future expenditures in order to retain its proportionate interest in the Joint Venture and IPS. If Delta does not fulfill its spending commitment, the 50% participating interest that was assigned to Delta is subject to reversal and Eurogas International’s and APEX’s interest in the Joint Venture and IPS will revert to 45% and 55%, respectively (see “Recent Developments” below).

The transaction with Delta is governed by an umbrella agreement dated April 7, 2008 (the “Umbrella Agreement”) between Eurogas International, APEX, Innovative Ventures Group Ltd. (“IVG”), an affiliate of APEX, and Delta which governs the Delta transaction and provides for the initial allocation of the US\$125 million committed by Delta in two categories: US\$80 million related to the Joint Venture (see “The Terms of the Farmout Agreement” below) and US\$45 million related to IPS (see “Innovative Production Services, Ltd.” below). Under the Umbrella Agreement, the parties may subsequently agree to redirect the investment of the US\$125 million into either category.

The Terms of the Farmout Agreement

Under the terms of the farmout agreement, Delta acquired its 50% interest in the Sfax Joint Venture in exchange for a commitment to spend US\$80 million in the Joint Venture (the “Work Program”) as part of

its overall commitment to spend US\$125 million. Under the terms of the joint operating agreement, APEX continues to serve as operator. Delta will receive 70% of any “cost oil” payments until it recovers US\$50.05 million of expenditures, after which all recoveries will be shared proportionately by the Joint Venture partners in accordance with their interest in the Joint Venture.

The 2009 Work Program and US\$12.8 million budget on the Joint Venture have been approved, subject to technical agreement between the Joint Venture partners. The Work Program includes a 380km 2D seismic program to follow up on the REB-3 well drilled in 2008. The Reineche formation produces oil and gas from two fields north of the Sfax Permit boundary that are located 15 kilometres from REB-3. The area is in shallow waters that have been sparsely evaluated due to the high cost of transition zone seismic acquisition. Vintage 2D lines suggest the presence of structures that could provide a trapping mechanism for Reineche oil pools. As further review is completed, the Work Program may be adjusted. The budget also includes US\$1 million to acquire onshore lands from which the Salloum appraisal well could be drilled. The ultimate timing of the Work Program will depend upon availability of contractors and crews.

Innovative Production Services, Ltd.

In May 2007, IPS, a company in which the Corporation owned a 45% interest (55% owned by IVG), purchased an oil production platform (the “Platform”) for US\$2.4 million. Concurrently with the entering into of the Delta farmout agreement, Delta entered into a share purchase agreement and a shareholders’ agreement (the “Shareholders’ Agreement”) with the Corporation and IPS (collectively, the “IPS Agreements”), pursuant to which Delta acquired a 50% interest in IPS from each of the IPS shareholders, reducing Eurogas International’s interest to 22.5%, in exchange for a commitment to spend the remaining \$40 million (the “IPS Program”) pursuant to the Umbrella Agreement. The Shareholders’ Agreement contains certain restrictions on share transfers including a right of first refusal, tag along and drag along rights in favour of the shareholders and pre-emptive rights in respect of future share issuances.

IPS plans to spend additional funds to renovate and upgrade the Platform it acquired and transport it to Tunisia. It is estimated that the total cost to IPS to purchase and upgrade the Platform would be approximately US\$18 million, with a total of US\$14.1 million having been spent to February 2009. The degree of upgrade and related expenditures will depend upon plans for utilization of the Platform. The 2009 IPS budget of US\$5 million is primarily for maintenance and upgrades to the Platform.

Recent Developments

On January 27, 2009, Delta notified Eurogas International and APEX of its desire to market its participating interest under the Delta farmout agreement. Delta is obligated under the relevant agreements to the Spending Commitment of US\$125 million. If the total Spending Commitment is not attained, Delta’s participating interest is subject to reversal. On April 20, 2009, APEX, as operator of the joint venture, served notice to Delta for failure to perform its obligations under the Delta farmout agreement and to meet its cash calls. Should Delta not remedy the failure on a timely basis, APEX and Eurogas International have the option of requiring Delta to reassign its participating interest back to APEX and Eurogas International.

Salloum

The Joint Venture partners are re-evaluating the Salloum oil prospect as the next drilling candidate on the Sfax Permit. An exploration well, (SAM 1) located 1.5 kilometres off the east coast of Tunisia, was drilled in 1991 by a previous operator and tested 1800 bpd of 42° API oil with no water from Bireno limestones. This structure is located in the northeast corner of the Sfax Permit in shallow waters adjacent to the city of Sfax and is adjacent to two producing oil fields that produce from the same targeted formation. In 2007, the Corporation and APEX arranged for 60 km² of shallow water three dimensional seismic to be shot and processed over this prospect. Revised mapping based on the 3D seismic program acquired in 2007 and older 2D seismic suggests the Salloum structure extends toward the shoreline and could be drilled from an onshore location, which should result in significant cost savings when compared with drilling an offshore well.

Other Developments

Additional prospects have been identified throughout the Sfax Permit based on evaluation of older two dimensional and new three dimensional seismic data, and large areas of the permit remain under-explored. Since 2004, Joint Venture partners have acquired 948 km² of 3D seismic to delineate structures in the central and northwest portion of the permit area.

Expiry of Farmout Option Agreement with Anadarko Petroleum Corporation (“Anadarko”)

Eurogas International and APEX had entered into a farmout option agreement with Anadarko in May 2006 pursuant to which Anadarko acquired a 520 km² 3-D seismic survey for \$15.5 million. Anadarko did not elect to proceed under the terms of the farmout option agreement by April 1, 2008 and accordingly, forfeited all rights to conduct work or receive any interest in the farmout areas.

CONSOLIDATED RESULTS OF OPERATIONS

For the year ended December 31, 2008 compared with the year ended December 31, 2007

Net Loss

The Corporation’s current energy projects are in the development stage and therefore, the Corporation does not generate operating revenues.

In 2008, the Corporation incurred a net loss of \$1.9 million (2007 – net loss of \$1.9 million). The net loss incurred during 2008 includes a dilution loss of \$2.3 million resulting from the deconsolidation and subsequent equity accounting of the Corporation’s investment in Escal, partially offset by a foreign exchange gain of \$1.7 million related to the amounts recovered as part of the ACS Transaction. The remaining net loss reflects administrative and financing costs not otherwise attributed to deferred exploration asset pools, net of interest and other miscellaneous revenues.

Interest and Other Revenue

During 2008, the Corporation earned interest and other revenue of \$1.6 million (2007 - \$0.8 million). The increase in interest and other revenue is attributed to higher levels of cash, as well as the Corporation’s investments in discounted notes and guaranteed investment certificates. The Corporation also earned interest on amounts outstanding pursuant to demand secured notes receivable relating to CLP.

General & Administrative Expenses

General and administrative expenses (“G&A”) not otherwise capitalized to deferred exploration asset pools, totalled \$2.8 million (2007 - \$2.6 million). G&A expenses, net of a \$0.7 million restructuring charge, decreased due to the business reorganization of Escal (see Business Reorganization of Escal) by which ACS replaced the Corporation as the operating shareholder in Escal. This has significantly reduced the Corporation’s workload associated with Escal and also the associated G&A expenses. Salaries and benefits decreased to \$1.3 million (2007 - \$1.7 million) as a result of reduced staff and offset by the \$0.7 million restructuring charge. Consulting expenses increased to \$0.6 million (2007 - \$0.3 million) as an offsetting expense of the reduced salaries. Travel expenses in 2008 decreased to \$0.2 million (2007 - \$0.3 million) as a result of less travel due to reduced staffing. Office expenses for 2008 totalled \$0.4 million compared to a net recovery of expenses, costs pertaining to Escal, in 2007 of (\$0.3 million). During 2008, the Corporation incurred stock based compensation costs of \$0.8 million (2007 - \$1.3 million), a decrease resulting from reduced staffing. In addition, during the same period, \$0.1 million (2007 - \$0.1 million) of stock based compensation costs were capitalized to deferred exploration asset pools.

Share of Earnings of Equity Accounted Investee

Following receipt of the development concession and completion of the ACS Transaction, the Corporation began to account for its investment in Escal and the Castor UGS Project on an equity basis. Accordingly, during the six months ended December 31, 2008, the Corporation recognized income of \$2,487, representing the Corporation’s proportionate interest in the losses incurred by Escal during that period.

In addition, included in other comprehensive income are foreign exchange gains of \$0.6 million, representing the Corporation's share of foreign exchange adjustments incurred on the translation of Escal's operations to Canadian dollars. Amounts of foreign exchange gains and losses reported in other comprehensive income are net of the amounts attributed to the non-controlling limited partners of CLP.

Income Taxes

As at December 31, 2008, the Corporation's future income tax asset was \$167,822 (December 31, 2007 - \$193,127) including future income tax assets of \$450,710 (December 31, 2007 - \$193,127) offset by future income tax liabilities of \$282,888 (December 31, 2008 - nil). Significant changes in future income tax balances during the year ended December 31, 2008 were:

- Increase in future income tax assets of \$257,583 relating to costs incurred for the Corporation's rights offering and reorganization of its investment in Eurogas International.
- Increase in future income tax liabilities of \$114,188 in respect of income deferred to subsequent years.
- Increase in future income tax liabilities of \$168,700 as a result of the ACS Transaction diluting the Corporation's interest in Escal.

The Corporation is subject to tax on its Canadian operations. Due to a significant increase in interest earned in the year and the reassessment of prior tax years by provincial and federal authorities, the Corporation recognized a current tax provision of \$151,578 in 2008 compared to a current tax recovery of \$64,070 in 2007.

The Corporation also has foreign operations in Tunisia and Spain. The respective operations are in the exploratory and development stage with all project costs being deferred. Therefore there are no taxes incurred in respect of the Corporation's foreign operations.

Capitalized G&A Expenses

During 2008, the Corporation allocated G&A costs, including stock based compensation amounts, of \$1.4 million (2007 - \$1.6 million) to deferred exploration asset pools in association with the development phase of the Corporation's projects, and in accordance with service agreements. These amounts include amounts allocated to our activities relating to the Spanish natural gas storage project and are therefore included in our equity-accounting based carrying value of Escal. The amounts allocated to deferred exploration asset pools are based on the proportion of employee time and resources dedicated to each project or upon specific fees in accordance with service agreements.

CONSOLIDATED RESULTS OF OPERATIONS

For the three months ended December 31, 2008 compared with the three months ended December 31, 2007

Net Loss

During the fourth quarter of 2008, the Corporation generated net earnings of \$1.2 million compared with a net loss of \$0.3 million in the same quarter of 2007. Included in earnings during the most recent quarter is a foreign exchange gain of \$1.4 million, as well as higher interest and other revenue generated from cash and investments.

Interest and Other Revenue

Interest income in the fourth quarter of 2008 increased to \$0.6 million from \$0.2 million during the fourth quarter of 2007. The increase is a result of a larger average cash balance on hand during the quarter compared to the same period of the prior year.

General & Administrative Expenses

G&A expenses in the fourth quarter of 2008 totalled \$0.3 million compared with \$0.7 million in the fourth quarter of 2007. G&A expenses decreased due to the business reorganization of Escal (see Business Reorganization of Escal) by which ACS replaced the Corporation as the operating shareholder in Escal.

This has significantly reduced the Corporation's workload associated with Escal and also the associated G&A expenses. Salaries and benefits for the three months ended December 31, 2008 decreased to \$15,012 (2007 - \$0.9 million) as a result of reduced staff. Consulting expenses increased as a result of this decreased staffing to \$0.3 million for the three months ended December 31, 2008 (2007 - \$0.1 million). Professional services decreased to \$0.1 million for the three months ended December 31, 2008 (2007 - \$0.2 million) as a result of the completion of professional services work incurred surrounding the ACS transaction. Office expenses for the three months ended December 31, 2008 totalled \$0.1 million compared to a net recovery of expenses, costs pertaining to Escal, in 2007 of (\$0.4 million). During the three months ended December 31, 2008, the Corporation incurred stock based compensation costs of \$0.1 million (2007 - \$0.2 million).

Capitalized G&A Expenses

During the fourth quarter of 2008, the Corporation capitalized \$0.3 million of G&A expenses to international projects, including \$29,208 (2007 - \$16,911) of stock based compensation. This is a 14% decrease over G&A expenses capitalized in the fourth quarter of the prior year. The decrease is related to lower G&A expenses compared to the fourth quarter of 2007 as discussed above.

Income Taxes

The Corporation recognized a current tax provision of \$173,917 in the fourth quarter of 2008 due to a significant increase in interest earned. The comparative 2007 current tax recovery of \$93,111 is the result of carrying back tax losses to recover prior years' taxes.

Capital Expenditures

The Corporation's capital expenditures during the fourth quarter of 2008 were \$1.7 million compared with \$8.6 million during the fourth quarter of 2007, all of which related to operating activities in Tunisia.

SUMMARY OF QUARTERLY RESULTS

Three months ended				
	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Revenues	\$ 584,938	\$ 537,588	\$ 282,481	\$ 160,138
Net income (loss)				
Continuing operations	1,471,404	(1,907,940)	(1,412,773)	(136,353)
Equity participation	13,030	(10,543)	-	-
Non-controlling interest	(235,645)	343,995	(290,878)	237,273
Corporate total	1,248,789	(1,574,488)	(1,703,651)	100,920
Funds provided (used in) operations	(1,176,678)	(390,087)	(327,546)	(85,775)
Capital expenditures (gross)	\$ 1,704,905	\$ 325,687	\$ 403,891	\$ 2,158,792
Per share basic and fully diluted	(0.01)	(0.01)	(0.01)	-

Three months ended				
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Revenues	\$ 190,363	\$ 227,765	\$ 181,819	\$ 178,002
Net loss				
Continuing operations	(173,315)	(241,981)	(1,209,434)	(355,067)
Discontinued operations	-	194,117	-	-
Corporate total	(173,315)	(47,864)	(1,209,434)	(355,067)
Funds provided by (used in) operations	(261,901)	71,588	(171,171)	(153,394)
Capital expenditures (gross)	\$ 8,649,462	\$ 1,602,768	\$ 5,832,171	\$ 3,814,228
Per share basic and fully diluted	-	-	(0.01)	-

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At December 31, 2008, the Corporation had cash of \$2.4 million and a portfolio of liquid investments, including discounted notes and guaranteed investment certificates issued by a Canadian chartered bank, with a market value of \$75.5 million. Investments have been classified, and are reported as held-for-trading securities in the Corporation's 2008 Audited Consolidated Financial Statements.

The Corporation's working capital increased to \$80.9 million as at December 31, 2008 from \$2.9 million as at December 31, 2007. The increase in working capital includes the receipt of \$29.4 million, net of issue costs, pursuant to the completion of a rights offering in April 2008. In addition, working capital has increased as a result of cash of approximately \$11.2 million received pursuant to the Delta farmout agreement and approximately \$41.1 million in cash received pursuant to the ACS Transaction.

During 2008, the Corporation had drawn \$2 million under the terms of a \$6 million revolving term credit facility provided by Dundee Corporation, the Corporation's controlling shareholder. On completion of the rights offering in April 2008, amounts borrowed pursuant to the facility were fully repaid and the facility was cancelled. While the facility was outstanding, the Corporation incurred interest at the rate of prime plus 2% per annum, and a standby rate of 1% per annum on any undrawn portion of the facility. Interest paid to Dundee Corporation during 2008 was \$52,418 (2007 - \$60,000).

Spain

In accordance with the terms of the ACS Transaction, ACS is responsible for providing equity and arranging project financing for the Castor UGS Project, including providing all guarantees that may be required, from the day it became a majority shareholder of Escal through to the completion of the Castor development as currently designed and approved by the government and the inclusion of the underground storage facility into the Spanish gas system, after which Eurogas will be responsible for its proportionate share of any new capital investment. Escal has submitted to the Ministry of Industry a formal budget for the year 2009 of \$467 million (€ 274 million). Interim financing has been arranged for Escal to fund project development until the project financing is completed. Although ACS is responsible for arranging project financing, the Corporation will be a party to any project finance arrangements and may need to meet certain conditions of the financing, such as the pledging of the Corporation's interest in the project as collateral. The Corporation is no longer required to provide any equity or warranties as may have been required by project finance lenders or to provide any bridge financing.

With the granting of the development concession on May 16, 2008, which gave effect to the ACS Transaction, the commitment letter previously provided by Dundee Corporation was cancelled. The commitment letter was originally issued to Escal and the Corporation, committing to either arranging for or providing financing for the Castor UGS Project of €45 million, until the completion of the project financing, and for an additional estimated equity requirement of €25 million.

During 2008, CLP completed cash distributions to all of its limited partners in an amount totalling \$38.4 million. Approximately \$28.3 million of this distribution was allocated and paid to the Corporation. The remaining \$10.1 million was allocated to the non-controlling limited partners of CLP, with a portion of the proceeds of the distribution being used to repay amounts owed by the non-controlling limited partners to the Corporation pursuant to demand secured loans receivable. At December 31, 2008, these demand secured loans receivable, including interest thereon, were fully repaid.

Tunisia

The partners in the Joint Venture are pursuing a significant evaluation and drilling program (see Tunisian Oil and Gas Projects – Sfax Permit).

Eurogas International will be required to fund its proportionate 22.5% share of these ongoing costs, once the commitments pursuant to the Delta farmout agreement have been met. Should Delta's commitment

pursuant to the Umbrella Agreement not be met, and should Eurogas International's interest in the Sfax Permit revert to 45%, Eurogas International will be required to fund additional costs, commensurate with its increased ownership.

Eurogas International currently has cash of approximately \$10 million that it has placed on deposit with Eurogas Corporation. At a 22.5% ownership interest, this amount would cover a US\$45 million expenditure on the Sfax Permit. At a 45% ownership interest, this amount would cover a US\$22.2 million expenditure on the Sfax Permit.

Any additional funding requirements would have to be accessed through debt or equity financings and/or bank borrowings. There can be no assurance that such funding or borrowings would be available to Eurogas International.

Outstanding Share Data

On April 24, 2008, the Corporation completed a rights offering pursuant to which it issued 31,143,690 common shares at a subscription price of \$0.97 per share. Proceeds from the rights offering, net of associated expenses of \$0.6 million, were \$29.6 million.

At December 31, 2008, there were 155,718,453 shares outstanding. The Corporation has also issued 315,000 deferred share units and 5,205,000 stock options with a weighted average exercise price of \$1.21. Stock options outstanding have expiry dates ranging from July 2009 to October 2013.

COMMITMENTS

Subsequent to the year end, on January 19, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension on the Sfax Exploration Permit that will extend the primary term to December 8, 2011. The extension requires that one new exploration well be drilled during the extension period.

RELATED PARTY TRANSACTIONS

During the second quarter of 2008, the Corporation repaid amounts outstanding pursuant to the \$6 million revolving term credit facility provided by Dundee Corporation, and the revolving term credit facility was subsequently cancelled. Interest paid to Dundee Corporation prior to the cancellation of the facility was \$52,418 (2007 - \$60,000).

As part of the development concession received on May 16, 2008 relating to the Castor UGS Project, Dundee Corporation's commitment letter to the Corporation and Escal to arrange for, or provide project financing for the Castor UGS Project has been cancelled.

As part of a restructuring initiated by the Corporation in the fourth quarter of 2008, the Corporation has entered into a services agreement with Dundee Resources Ltd., pursuant to which Dundee Resources Ltd. will provide the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. Dundee Resources Ltd. is a wholly owned subsidiary of Dundee Corporation. Aggregate costs associated charged to the Corporation for these services were \$0.1 million.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities and with its current stage of development. The following outlines some of the Corporation's principal risks and their potential impact to the Corporation. If any of the following risks actually occur, the Corporation's business may be harmed and the Corporation's financial condition and results of operations may suffer significantly.

Development Projects

The proposed Castor UGS Project is not currently operational and is not anticipated to be operational within the next year. Furthermore, the Corporation has not previously carried on business in the gas storage industry.

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 readily 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.

Exploration, Development and Production Risks

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

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

No Recent History of Earnings

The Corporation has no recent history of earnings with respect to its activities, and there is no assurance that any of its material properties will generate earnings, operate profitably or provide a return on investment in the future. The Corporation has not paid dividends on its common shares in the past and has no plans to pay dividends on its common shares for the foreseeable future.

Reliance on Operators, Management and Key Personnel

The Corporation's business activities rely on the technical skill of the personnel involved. The Corporation is not the operator in the two energy projects in which it currently has an interest. To the extent that the Corporation is not the operator, the Corporation will be dependent on such operators for the timing of activities related to such projects and will largely be unable to direct or control the activities of the operators. The Corporation's success will also be dependent, in part, upon the performance of its key managers, service providers and consultants, and competition for qualified personnel in the oil and natural gas industry is intense. Failure to retain the managers and consultants, or to attract or retain additional key personnel with the necessary skills and experience, could have a materially adverse impact upon the Corporation's growth and profitability.

Additional Funding Requirements

The business and operations of the Corporation may require substantial additional capital, both for its Tunisian operations and potentially, for completion of the Castor UGS Project. Although ACS is responsible for project financing in respect of the Castor UGS Project and although Delta has committed to

spend up to US\$125 million, there can be no assurance that these arrangements will be sufficient or that these other parties will fulfill their entire commitment.

Delta has notified the Corporation and APEX of its desire to market its participating interest in the Joint Venture. The Corporation has a right of first offer, and together with APEX, responded with a settlement offer. Discussions are underway between the Joint Venture partners. Depending on the outcome of the discussions, the Corporation's interest in the Joint Venture may revert to 45%, in which case the Corporation would be responsible for 45% of expenditures, including with respect to expenditures under the 2009 Work Program, the IPS Program and an abandonment of the well, rather than its current 22.5% interests.

Access to public funding has been negatively impacted by current global financial conditions. This may impact the ability of the Corporation to obtain equity or debt financing in the future, if required, and if obtained, on terms favourable to the Corporation.

Permits and Licenses

In connection with its operations, the Corporation is required to obtain permits, and in some cases, renewals of permits from the authorities in Spain and Tunisia. In addition, the Corporation may also be required to obtain licenses and permits from government agencies in other foreign jurisdictions. The ability of the Corporation to obtain, sustain or renew such permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Further, if permits and licenses, or renewals thereof, are not issued to the Corporation or unfavourable restrictions or conditions are imposed on the Corporation's drilling activities, there is a possibility it will not be able to conduct its operations as planned. Alternatively, failure by the Corporation to comply with the terms of permits or licenses might result in the suspension or termination of operations and subject the Corporation to monetary penalties or restrictions on operations.

Foreign Operations

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

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

Equipment and Related Costs

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

Competition

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

Regulatory

Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government (domestic and foreign) and may be amended from time to time. The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different from the way they would affect other oil and natural gas companies of similar size.

Environmental Concerns

The Corporation's activities are subject to environmental legislation in the jurisdictions in which it operates. A breach of such legislation may result in the imposition of fines or other penalties. Should the Corporation be unable to fully remedy the cost of an environmental problem, the Corporation or its operators might be required to suspend operations or enter into compliance measures pending completion of the required remedy. In certain circumstances, the Corporation may be required to obtain approval of environmental impact assessments. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of current activities or a material increase in the future costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition or results of operations.

Volatility of Commodity Prices and Alternative Fuel Sources

Oil and natural gas prices fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of the Corporation. Political and economic developments around the world can affect world oil and natural gas supply and prices. Any prolonged period of low oil and natural gas prices could result in a decision by the Corporation to suspend or terminate exploration, as it may become uneconomically feasible to explore for and/or produce oil or natural gas at such prices. Competition may also be presented by alternate fuel sources.

Hedging Activities

If the Corporation's properties produce commercial quantities of oil or natural gas, the Corporation may, from time to time, enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases.

Accounting Write-downs as a Result of GAAP

The Corporation 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.

Canadian GAAP requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in our financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the price of the Common Shares.

Title to Properties

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

Potential Conflicts of Interest

Certain of the directors of the Corporation are also directors or officers of corporations that are in competition to the interests of the Corporation. No assurances can be given that opportunities identified by such board members will be provided to the Corporation. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as applicable under, the Canada Business Corporations Act.

Taxation

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

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material.

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 that 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.

ACCOUNTING POLICIES AND ESTIMATES

This management's discussion and analysis of the Corporation's consolidated financial condition and the results of its operations are based upon the consolidated financial statements of the Corporation. These statements have been prepared in accordance with Canadian GAAP. The preparation of these consolidated financial statements requires the Corporation to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The most critical accounting policies are those that the Corporation believes are the most important in portraying its financial condition and results of operations and those that require the most subjectivity and estimates by management. A summary of our significant accounting policies applied during 2008 are included in note 1 to the 2008 Audited Consolidated Financial Statements. A discussion of some of the more significant judgments and estimates made by management are as follows:

Economic Viability of Activities in Spain

Activities in Spain are in the pre-development phase. All pre-development costs relating to the Castor exploration permit in Spain are capitalized by Escal. The recovery of these costs is dependent upon the economic viability of the underground natural gas storage project and the remuneration program in place by the Spanish authorities.

Recoverability of Exploratory Activities in Tunisia

The Corporation is currently in the exploratory stage of a drilling program in Tunisia and capitalizes all associated costs. The recovery of the recorded costs is contingent upon the existence of economically recoverable reserves and future profitable production.

Income Tax

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations, which can involve multiple Canadian and international jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Fair Value of Financial Instruments

Financial instruments are recorded on the consolidated balance sheet at values that are representative of or approximate fair value. Management uses judgement in its assessment of fair values and imprecision in determining fair value may affect the amount of net earnings recorded for a particular investment in a particular period. The Corporation believes that its estimates of fair value are reasonable and appropriate. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that they continue to be appropriate.

Stock Based Compensation

The Corporation may utilize stock based compensation, including stock option awards and awards or deferred share units, as a retention tool for employees and key executives. When such awards are granted, the Corporation measures the fair value of the award and amortizes it over the vesting period. The Corporation makes a variety of assumptions in calculating this fair value. The Corporation has not factored in a forfeiture rate for awards that may be cancelled before vesting criteria are met. Furthermore, the Corporation uses the Black-Scholes option pricing model in determining the value of stock based compensation expense. The application of this model itself requires estimates that may not be ultimately correct. Management assumes that it will settle stock based compensation through equity.

Consolidation of Variable Interest Entities

The Corporation is required to consolidate any variable interest entities in which it is the primary beneficiary. An entity is a variable interest entity when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; or (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the entity that is exposed, through variable interests, to a majority of the variable interest entity's expected losses or is entitled to a majority of the variable interest entity's expected residual returns, or both.

Management uses a significant amount of judgment in assessing whether an entity is a variable interest entity and whether it is the primary beneficiary of a variable interest entity. The Corporation uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a variable interest entity, and if required, to analyze and calculate the expected losses and the expected residual returns.

During 2008, the Corporation determined that its interest in Eurogas International met the definition of a variable interest entity in which the Corporation was the primary beneficiary.

CHANGES IN ACCOUNTING POLICIES ADOPTED IN 2008

As of January 1, 2008, the Corporation adopted the provisions of CICA Handbook Sections 3862 "*Financial Instruments - Disclosures*", 3863 "*Financial Instruments - Presentation*" and 1535 "*Capital Disclosures*". The new standards include enhanced disclosure requirements on the nature and extent of risks arising from financial instruments and the way the Corporation manages those risks. In addition, section 1535 requires qualitative and quantitative disclosures that enable the users to evaluate the Corporation's objectives, policies and processes for managing capital.

The financial assets and financial liabilities of the Corporation are not subject to significant market risk, credit risk or liquidity risk. Financial instruments are recorded on the consolidated balance sheet at carrying values that are representative of, or approximate, fair value. (Refer also to Note 1 to the 2008 Audited Consolidated Financial Statements.)

The Corporation defines the capital that it manages as its shareholders' equity. The Corporation's objectives when managing capital include ensuring that the Corporation is able to meet its financial obligations as they become due and ensuring that the Corporation has sufficient capital available to benefit from opportunities, should they arise, in order to ensure shareholder value.

FUTURE ACCOUNTING CHANGES

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

On February 13, 2008, the CICA Accounting Standards Board announced the adoption of International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. IFRS will replace Canadian GAAP. The implementation will apply to the Corporation's interim and annual financial statements beginning with January 1, 2011, including the restatement of comparative amounts for 2010. While the Corporation has begun to assess the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

In February 2008, the CICA issued Section 3064, "*Goodwill and Intangible Assets*", which replaces Section 3062, "*Goodwill and Other Intangible Assets*". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective beginning January 1, 2009. Concurrent with the issuance of this standard, EIC-27, "*Revenues and Expenditures in the Pre-operating Period*", has been withdrawn.

The CICA issued three new accounting standards in January 2009: Section 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling interests*". These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 – "*Business Combinations*". The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace 1600 – "*Consolidated Financial Statements*". Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard 27 – "*Consolidated and Separate Financial Statements*" and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

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 year ended December 31, 2008, there have been no material changes in internal control over financial reporting. In common with many small companies, segregation of duties is 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 and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

ADDITIONAL INFORMATION

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

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