



Eurogas Corporation

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2nd Quarter 2007

Dear Shareholder:

During the second quarter of 2007, Eurogas focussed its activities on the permitting, engineering and financing roadmap in Spain, and on the development of the Ras el Besh oil prospect in Tunisia. During the first half of 2007, the investment in both projects totalled \$9.2 million and as of June 30, 2007 the Company had working capital of \$7.9 million and a \$6 million line of credit with Dundee Corporation.

SPAIN: CASTOR UNDERGROUND GAS STORAGE PROJECT

As operator, management continued to advance the Castor UGS Project on technical, financial and managerial levels during the second quarter. Castor UGS Project is one of the first underground gas storage projects to be developed under Spain's current energy regulatory regime and, if approved, will become a regulated utility forming a crucial element of Spain's energy infrastructure. The project requires successful completion of a complex permitting process, including the grant of the Exploitation Concession. The Ministry of Industry has initiated the required public review process for the Exploitation Concession, one of the steps before the Concession can be granted. This process involves publication in the Official Gazette whereby, for a period of 20 days ending August 23, interested parties can view project documents and submit their comments. The Exploitation Concession, if granted, will be through a Royal Decree approved by the Spanish Council of Ministers. Other significant permits documentation has been filed, and is awaiting a separate public review process.

On the technical side, the Front End Engineering and Design ("FEED") study will be completed in October 2007, and will provide information for the finalization of a fixed price, time certain Engineering, Procurement and Construction ("EPC") contract. ACS, the largest construction firm in Spain, has qualified as the EPC contractor, subject to agreement on terms and conditions. In addition, the Company has commissioned ACS for detailed engineering for the offshore wellhead platform. This platform will be utilized for the drilling of 12 wells – 8 wells for gas injection/production, 3 wells for observation and 1 for fluid disposal. Optimum reservoir locations for the wells have been selected utilizing advanced seismic modelling. Drilling programs are being finalized, and tenders are being issued for the relevant services and equipment.

Eurogas and Deutsche Bank, the financial advisor on the project, are working diligently on structuring a project financing for Castor UGS. We expect that additional equity for the project will be required by lenders, the level required will reflect market standards for long-life regulated infrastructure projects such as Castor UGS.

TUNISIA: SFAX EXPLORATION PERMIT

Eurogas is conducting exploration and development programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where the Corporation holds a 45 percent interest in the 1.0 million acre Sfax Permit. Eurogas is the non-operating partner in the permit. Two separate programs are underway: the development of three oil prospects beginning with Ras el Besh, and an exploration program that is funded by Anadarko Petroleum Corporation under the terms of a 2-well Farmout Option Agreement.

(a) *Ras el Besh*

The Ras el Besh prospect, drilled in the 1990's by a previous operator, tested 612 bopd. Eurogas and its operating partner received a 30-year development concession from the Tunisian authorities to develop the Ras el Besh prospect in 2006. In 2007, partners finalized the purchase, and took possession of a production jack-up platform. In June and July, the operator issued tenders for equipment and services to drill REB-3, and purchased a wellhead and casing required to drill REB-3.

In Q2 2007, the operator completed a reservoir simulation model of the Ras el Besh complex, and retained a reservoir engineering contractor to estimate the potential volume of oil in the reservoir.

(b) *Salloum*

Subsequent to the end of the quarter, Eurogas participated in a 60 km² 3-D shallow seismic program as part of its evaluation of the Salloum prospect, which tested 1,800 barrels of oil per day from an exploration well drilled in 1997 by a previous operator. Processing and interpretation will take approximately 5 months.

(c) *Exploration farmout*

Eurogas and APEX entered into a Farmout Option Agreement with Anadarko Petroleum Corporation ("Anadarko") in 2006 consisting of two seismic acquisition programs, drilling two exploration wells, and the reimbursement to partners of up to \$4.5 million of past costs. Anadarko completed the first phase of the farmout, a 456 km² shallow water 3-D seismic acquisition program during the second quarter. Processing and interpretation are underway to delineate potential drilling targets.

The Company is well positioned to move forward with its major projects in Spain and Tunisia.

On behalf of the Board of Directors,

Signed
Jaffar Khan
President and Chief Executive Officer

Signed
Andrew Constantinidis
Vice President and Chief Financial Officer

August 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results is dated August 9, 2007, and is to be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes for the period ended June 30, 2007 and the audited consolidated financial statements and related notes and management discussion and analysis ("MD&A") of Eurogas Corporation ("Eurogas" or the "Corporation") for the year ended December 31, 2006. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

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

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive from them. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

INTERNATIONAL OIL AND GAS PROJECTS

Spain: Castor UGS Project

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

As operator, management continued to advance the Castor UGS Project on technical, financial and managerial levels during the second quarter. Castor UGS Project is one of the first underground gas storage projects intended to be developed under Spain's current energy regulatory regime and, if approved, will become a regulated utility forming a crucial element of Spain's energy infrastructure. The project requires successful completion of a complex permitting process, including the grant of the Exploitation Concession. Escal has provided input to the regulatory roadmap being completed by the central and regional authorities, and continues to make progress with these authorities with the assistance of ACS Group under a Collaboration Agreement reached in December 2006. In accordance with the agreement, ACS acquired a 5 percent equity interest in the Corporation's subsidiary, Escal UGS S.L., for an initial payment of \$139,512, and entered into a shareholder's agreement related to Escal which included the right to appoint one person to the Board of Directors of Escal on July 26, 2007. In the case that ACS decides to sell its interest in Escal, the Corporation has pre-emption rights and a right of first refusal. Additional consideration is due upon completion of an independent valuation

pursuant to project financing arrangements in the amount of 5 percent of the valuation less the initial payment. Under the agreement, ACS is currently acting on behalf of Escal in discussions with government/regulatory bodies regarding project approval, implementation and remuneration.

The Ministry of Industry has initiated the required public review process for the Exploitation Concession, one of the steps before the Concession is granted. This process involves publication in the Official Gazette whereby, for a period of 20 working days ending August 23, interested parties can view project documents and submit their comments. The Exploitation Concession, if granted, will be through a Royal Decree approved by the Spanish Council of Ministers.

In addition to the Exploitation Concession, the primary project permit, a number of secondary permits are also required. Subsequent to the end of the quarter, the Corporation submitted applications for several of these, including Construction Authorization, Occupation of the Marine Domain and the Public Interest Declaration, to national and regional authorities. An updated Environmental Impact Study was also submitted at that time.

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

At a Castor UGS Partners meeting held on May 17, 2007, the partners agreed to a \$28 million cash call. Eurogas has already contributed its portion. The Corporation has offered to fund the minority unit holders' portion of the cash call totalling \$7.4 million by way of demand promissory notes receivable with a one-year term at a rate of six percent per annum. To date, none of the minority unit holders have contributed their portion of the cash call or signed the loan documents. Unless the minority unit holders have met their cash call obligations by August 31, 2007, Eurogas will increase its ownership in Castor UGS in proportion to the unmet cash call amounts.

2007 Development Program

(a) *Engineering and facilities*

During the three months ended June 30, 2007, capital investment on the Castor UGS Project totalled \$4.0 million, compared to \$0.6 million during the same quarter last year and \$7.3 million on a year-to-date basis compared to \$1.8 million year-to-date last year. Under the Assistance Contract entered into by Escal in October 2006 and amended in May 2007, engineering efforts continued during the quarter.

In accordance with the Assistance Contract, ACS Group ("ACS") continued preparation of the FEED Study which includes detailed design specifications, cost estimates and project scheduling, which will serve as the basis for engineering, procurement and construction ("EPC") contracts. FEED Study costs include ACS fees under the Assistance Contract, outside studies and internal staff costs. The FEED work is expected to be completed by October 2007. In May 2007, the Corporation contracted ACS for additional services including detailed engineering work related to the wellhead platform, information related to long lead-time equipment, and project management services. During the quarter, \$2.2 million (2006 - \$nil) has been incurred and year-to-date \$3.8 million (2006 - \$nil)

(b) *Guarantees*

Certain guarantees are required by law through the authorization and permitting process and during operations. Likely in 2007, and depending upon permit timing and outcome, the Corporation will be required to place two guarantees, which will be non-cumulative, i.e. the greater of: (i) refundable guarantee in the amount of approximately \$12 million required for the *Public Domain Occupation Concession* (this guarantee will be released after completion of construction), and (ii) a guarantee required upon the grant of the Exploitation Concession for the life of the concession. This guarantee will continue through the duration of the concession and will be increased after start-up.

(c) *Financing*

The Corporation's funding plans for the Castor Project are centered around project financing. Additional equity for the project will be required, depending upon the requirements of the project finance lenders, which should reflect market standards for regulated infrastructure projects. In March 2007, the Corporation engaged Deutsche Bank as financial advisor on the project. During the quarter, the Corporation spent \$239,415 (2006 - \$nil) and \$342,986 year-to-date (2006 - \$nil) on project financing related matters.

(d) *Capitalization of administrative costs*

The Corporation has committed substantial technical expertise and strategic direction to the Castor UGS Project based out of its Calgary and Madrid offices. Administrative costs associated with the project are capitalized as part of the project's pre-development phase of operations. Administrative costs totalling \$538,486 were capitalized in the quarter (2006 - \$278,900) and \$1.8 million on a year-to-date basis (2006 - \$552,500).

Tunisia: Sfax Permit

Eurogas is currently conducting exploration programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where the Corporation holds a 45 percent interest in the 1.0 million acre Sfax Permit. Eurogas is the non-operating partner in the permit. Eurogas and its operating partner are committed to drill one well within the four-year term of the Sfax Exploration Permit. This was established when the permit was successfully converted from a Prospecting Authorization Permit in December 2005.

(a) *Ras el Besh*

The Ras el Besh prospect, drilled in the 1990's by a previous operator, tested 612 bopd. During the quarter, Eurogas continued its evaluation of the Ras el Besh ("REB-3") prospect. Capital investment totalling \$1.8 million was incurred in the quarter (2006 - \$379,404), and \$2.3 million on a year-to-date basis (2006 - \$662,791), and included \$94,072 in the quarter and \$415,915 on a year-to-date basis related to the Corporation's share of administration, supervision, studies and overhead costs incurred by its joint venture partner in advancing the Ras el Besh program. In addition, the Corporation capitalized \$102,000 in the quarter (2006 - \$130,300) and \$264,000 on a year-to-date basis (2006 - \$214,600) of its own corporate general and administrative costs to the Tunisian asset pool. All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations.

In preparation for potential production at Ras el Besh, Eurogas and its partner finalized the purchase of the Ocean Patriot production jack-up rig, and took final possession of the vessel in May 2007 at a cost of \$1.6 million. Additional funds will be required for refurbishment and transportation to Tunisia. Once REB-3 confirms the structure to be economic for further development, partners will commence refurbishment activities and may procure other production facilities.

The operating partner has purchased wellbore equipment to drill REB-3 and has tendered all relevant services. Timing of the REB-3 drilling program will be finalized upon receipt of the drilling tender. The drilling costs are currently estimated at US\$8.5 million net to Eurogas, a portion of which was incurred during 2006 and during the first six months of 2007. Further Tunisian expenditures will depend on the results achieved by the drilling of the well.

(b) *Salloum*

Subsequent to the end of the quarter, Eurogas conducted a 60 km² 3-D shallow seismic program as part of its evaluation of the Salloum prospect, which tested 1,800 barrels of oil per day from an exploration well drilled in 1997 by a previous operator. The estimated cost of the seismic program is \$2.1 million, of which Eurogas is responsible for its 45 percent share or \$960,000.

(c) *Farmout area*

The exploration strategy for the Sfax Permit was implemented in May 2006 when Eurogas and APEX entered into a Farmout Option Agreement with Anadarko Petroleum Corporation ("Anadarko"). Anadarko can earn a maximum of 75 percent working interest in the farmout lands by completing two seismic acquisition programs, drilling two exploration wells, and reimbursing partners for up to \$4.5 million of past costs. The first seismic acquisition program of 456 km² of 3-D shallow water seismic was completed during the second quarter of 2007. The cost of the seismic was paid by Anadarko.

Specifically excluded from the Farmout Agreement were three areas covering a total of 50,400 acres surrounding three oil prospects (Ras el Besh, Jawhara and Salloum). Eurogas and its partner retained an aggregate of 100 percent interest (Eurogas holds a 45 percent interest) and plan to further evaluate and develop these plays. Eurogas and its partner will continue to focus on evaluation of the retained areas, recognizing that they are of lower risk as each tested oil in an exploration well that was drilled by a previous operator.

CONSOLIDATED RESULTS OF OPERATIONS

Interest and other revenue

The Corporation earns interest income on cash and short-term deposits. During the quarter, \$181,819 of interest income was earned (2006 - \$220,171) and \$359,821 (2006 - \$435,762) on a year-to-date basis. The decrease in interest revenue reflects the decrease in cash and short-term deposits. The Corporation continues to fund its international projects with proceeds from a 2005 Rights Offering.

General & administrative (G&A) expenses

Net G&A expenses for the second quarter totalled \$956,599 (2006 - \$638,120) and \$1.4 million (2006 - \$1.1 million) on a year-to-date basis. Gross G&A (before capitalization to international asset pools as described below) was \$1.3 million during the second quarter (2006 - \$1.1 million) and \$2.1 million (2006 - \$1.9 million) on a year-to-date basis. This translates into an 18% increase this quarter compared to the same quarter last year, and an 11% increase year-to-date compared to last year. In general, increased staffing and stock based compensation costs reflect the expanding activities required in the development of the Castor UGS Project.

Capitalized G&A expenses

The Corporation allocated \$684,183 of G&A expenditures to its subsidiaries during the current quarter (2006 - \$498,500), and \$1.2 million (2006 - \$856,400) on a year-to-date basis, including certain stock based compensation amounts. These costs were capitalized to respective international asset pools in association with the development phase of each location, in accordance with Service Agreements. The portion of G&A allocated to subsidiaries is based on the amount of employee time and resources dedicated to international projects. The increase in capitalized G&A during the quarter, compared to the same period last year, is a result of increased efforts directed at international ventures, particularly associated with the development of the Castor UGS Project where increased technical and management staff were necessary to advance the project.

Stock based compensation expense

Stock based compensation expense is included as a component of G&A. Stock based compensation measures the implicit cost of compensating personnel through the issuance of stock options and deferred share units as further described in the 2006 audited financial statements. For the three months ended June 30, 2007, the Corporation incurred stock based compensation expense of \$668,334 (2006 - \$254,650) and \$847,801 (2006 - \$423,484) on a year-to-date basis. In addition to amounts expensed, the Corporation capitalized \$379,134 of stock based compensation to international asset pools during the quarter (2006 - \$140,600) and \$477,767 (2006 - \$235,600) on a year-to-date basis. Stock options issued in May 2007 account for the overall increase in stock based compensation during the quarter and year-to-date.

Income taxes

The Corporation's future income tax asset at June 30, 2007 was \$258,000 (December 31, 2006 - \$299,000) and includes \$99,000 (December 31, 2006 - \$108,000) associated with the Corporation's tangible assets and foreign exploration development expense pools, and \$159,000 (December 31, 2006 - \$191,000) associated with share issue costs.

During the second quarter, the Corporation recognized a provision for future income tax expense totalling \$21,000 related to continuing operations (2006 - \$27,000) and \$41,000 (2006 - \$72,000) on a year-to-date basis. Future income tax is largely the result of timing differences on share issue costs incurred on the Corporation's 2005 Rights Offering.

The Corporation is subject to tax on Canadian operations. A current income tax expense of \$49,766 was recognized during the quarter related to continuing operations (2006 - \$109,000) and \$126,766 (2006 - \$140,000) on a year-to-date basis. A current tax provision has been recognized on Canadian source earnings which includes interest income on cash held and interest income earned on funds advanced to international subsidiaries.

Net earnings

Eurogas' two energy projects, namely, the Castor UGS Project in Spain and the Sfax Exploration Program in Tunisia, are both in the early development stage. The Corporation has not generated operating revenues since the exit from Canadian oil and gas operations in May 2005. The Corporation incurred a net loss from continuing operations of \$1,209,434 during the quarter (2006 - \$837,081) and \$1,564,501 (2006 - \$1,144,854) on a year-to-date basis. The Corporation's net losses are the result of administrative and financing costs not otherwise attributed to international activities.

Per share information

Basic earnings (loss) per common share are computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For the three months ended June 30, 2007, the weighted average common shares outstanding were 123,899,489 (2006 – 123,249,489). For the six months ended June 30, 2007, the weighted average common shares outstanding were 123,663,437 (2006 - 122,972,277). Diluted amounts per common share are calculated using the treasury stock method to determine the dilutive effect of stock options. The treasury stock method assumes that the proceeds received from the exercise of "in the money" stock options are used to repurchase common shares at the average market price during the period. There were no dilutive options or deferred share units for the period ended June 30, 2007.

Liquidity and capital resources

Working capital of \$7.9 million as at June 30, 2007 has decreased from \$17.0 million as at December 31, 2006 as a result of capital expenditures and operating costs incurred during the period. Included in working capital at June 30, 2007 are cash and short-term deposits totalling \$11.9 million.

Eurogas holds a revolving credit facility with Dundee Corporation ("Dundee"), the Corporation's controlling shareholder, to a maximum of \$6 million, bearing interest at the rate of prime plus 2 percent per annum, and a standby rate of 1 percent per annum on any undrawn portion of the facility. As at June 30, 2007, \$6 million was available for use.

Management of Eurogas anticipates the cost of the Castor UGS Project to be approximately \$1.2 billion, which will be incurred over a period of years. The Corporation will need to arrange project financing to advance the project's development. In addition to the current line of credit, management anticipates that the Corporation can continue to rely on Dundee Corporation for funding support on terms that have not yet been agreed. On March 5, 2007 the Corporation announced an agreement with Deutsche Bank, whereby Deutsche Bank will act as financial advisor to Eurogas with respect to the project financing for a fee of approximately \$92,500 per month to a maximum of \$1.1 million, plus an additional success fee.

At June 30, 2007, the Corporation's market value of common shares was \$203.1 million based on the closing price of \$1.63 per share and 124,574,763 shares outstanding. During the quarter and year-to-date, Eurogas issued 1,150,000 shares through the exercise of options. The number of common shares outstanding at August 9, 2007 was 124,574,763.

Commitments

The Corporation's commitments include minimum lease payments to a landlord totalling \$393,000 over the next five years including \$76,000 in the current year, \$304,000 during 2008 and 2009, followed by \$13,000 in 2010.

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

Related party transactions

Certain transactions with Dundee Corporation occurred during the quarter, including interest and standby fee payments totalling \$14,959 (2006 - \$16,664) and \$29,753 (2006 - \$32,974) on a year-to-date basis related to the Corporation's \$6 million credit facility. Cash interest payments are due monthly in arrears.

Business risks

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

Development projects

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

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

Financing

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

International operations

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

Foreign currency

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

Government laws and regulations

Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies as well as bylaws and policies of Canada affecting foreign trade, investment and taxation. Furthermore, it is important that the Corporation maintain good relationships with the governments in certain of the countries in which it operates. The Corporation may not be able to maintain such relationships if the governments of these countries change.

Petroleum industry

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

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

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material. The Corporation does not have any reserves assigned to its properties and does not have an independent engineering evaluation report under National Instrument 51-101. The Corporation has not yet had drilling success in Tunisia. The Corporation does not currently have any oil or gas production. Based on the current plan to develop the Castor UGS Project, the Corporation does not expect to extract significant volumes of oil from the Castor reservoir.

Access to equipment

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

Impairment

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

Insurance

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

Director independence

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

Key executives

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

Changes in accounting policies

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

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

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

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

Control environment

Disclosure controls and procedures

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

Internal control over financial reporting

Under the supervision of and with the participation of Eurogas' management, including the Chief Executive Officer and the Chief Financial Officer, internal control over financial reporting has been designed and maintained in order to provide reasonable assurance regarding the reliability of financial reporting, as of the end of the period covered by the filings. During the quarter ended June 30, 2007, there have been no material changes in internal control over financial reporting. In common with many small companies, segregation of duties are difficult, however compensating controls are in place at Eurogas, including key management authorizations and reviews.

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

Additional information

Additional information regarding the Corporation and its business and operations is available on the Corporation's company profile at www.sedar.com. This information is also accessible on the Corporation's website at www.eurogascorp.com.

Summary Financial Information

Three months ended

	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Sales, net of royalties				
Discontinued operations	\$ -	\$ -	\$ 38,000	\$ 25,401
Interest Income	181,819	178,002	267,491	222,223
Funds used in operations				
Continuing operations	(171,171)	(153,394)	(151,753)	(194,974)
Discontinued operations	-	-	(28,728)	(6,685)
Corporate total	(171,171)	(153,394)	(180,481)	(201,659)
Net earnings (loss)				
Continuing operations	(1,209,434)	(355,067)	(990,028)	(481,626)
Discontinued operations	-	-	(28,728)	(6,685)
Corporate total	(1,209,434)	(355,067)	(1,018,756)	(488,311)
Per share basic and fully diluted	(0.01)	(0.00)	(0.01)	(0.00)
Capital expenditures (gross)	\$5,832,171	\$3,814,228	\$1,351,721	\$3,027,430

Three months ended

	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Sales, net of royalties				
Discontinued operations	\$ 4,471	\$ 4,505	\$ (4,983)	\$ 84,550
Interest Income	220,171	215,591	124,443	107,688
Funds from (used in) operations				
Continuing operations	(288,963)	(88,466)	(550,097)	115,776
Discontinued operations	(170,546)	2,839	125,014	19,498
Corporate total	(459,509)	(85,627)	(425,083)	135,274
Net earnings (loss)				
Continuing operations	(666,535)	(310,612)	(611,772)	(377,683)
Discontinued operations	(170,546)	2,839	(129,865)	18,784
Corporate total	(837,081)	(307,773)	(741,637)	(358,899)
Per share basic and fully diluted	(0.01)	(0.00)	(0.01)	(0.00)
Capital expenditures (gross)	\$1,021,553	\$ 1,501,677	\$2,152,079	\$2,772,949

EUROGAS CORPORATION
Consolidated Balance Sheets
(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current		
Cash and short-term deposits	\$ 11,858,950	\$ 18,738,542
Accounts receivable	40,119	198,464
Prepays and other (Note 2)	895,205	646,209
Joint venture receivable (Note 3)	7,416,904	463,382
	<hr/> 20,211,178	<hr/> 20,046,597
Notes receivable	1,194,155	1,166,706
Property, plant and equipment (Note 3)	67,334,097	57,701,955
Future income taxes	258,000	299,000
	<hr/> \$ 88,997,430	<hr/> \$ 79,214,258
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 4,759,172	\$ 2,948,845
Taxes payable	113,395	53,005
	<hr/> 4,872,567	<hr/> 3,001,850
Asset retirement obligation (Note 6)	611,105	432,762
Non-controlling interest (Note 3)	11,740,350	3,946,704
	<hr/> 17,224,022	<hr/> 7,381,316
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	67,898,790	67,719,390
Contributed surplus (Note 7)	3,392,445	2,066,878
Retained earnings	482,173	2,046,674
	<hr/> 71,773,408	<hr/> 71,832,942
	<hr/> \$ 88,997,430	<hr/> \$ 79,214,258

See accompanying notes.

EUROGAS CORPORATION
Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
REVENUE				
Interest and other	\$ 181,819	\$ 220,171	\$ 359,821	\$ 435,762
EXPENSE				
General and administrative	956,599	638,120	1,375,668	1,063,701
Interest (Note 5)	14,959	16,664	29,753	32,974
Depreciation and accretion	22,089	12,699	31,799	19,972
Foreign exchange loss	326,840	83,223	319,336	84,262
	1,320,487	750,706	1,756,556	1,200,909
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,138,668)	(530,535)	(1,396,735)	(765,147)
PROVISION FOR INCOME TAXES	70,766	136,000	167,766	212,000
LOSS FROM CONTINUING OPERATIONS	(1,209,434)	(666,535)	(1,564,501)	(977,147)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	-	(170,546)	-	(167,707)
NET LOSS AND COMPREHENSIVE LOSS	\$ (1,209,434)	\$ (837,081)	\$ (1,564,501)	\$ (1,144,854)
LOSS PER COMMON SHARE BASIC AND DILUTED (Note 7)				
Loss from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Loss from discontinued operations, net of tax	-	(0.00)	-	(0.00)
Net loss	(0.01)	(0.01)	(0.01)	(0.01)

See accompanying notes.

EUROGAS CORPORATION
Consolidated Statements of Retained Earnings
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 1,691,607	\$ 4,390,822	\$ 2,046,674	\$ 4,698,595
Net loss	(1,209,434)	(837,081)	(1,564,501)	(1,144,854)
RETAINED EARNINGS, END OF PERIOD	\$ 482,173	\$ 3,553,741	\$ 482,173	\$ 3,553,741

See accompanying notes.

EUROGAS CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Loss from continuing operations	\$ (1,209,434)	\$ (666,535)	\$(1,564,501)	\$ (977,147)
Depreciation and accretion	22,089	12,699	31,799	19,972
Recovery of future income taxes	21,000	27,000	41,000	72,000
Stock based compensation expense	668,334	254,650	847,801	423,484
Unrealized foreign exchange loss	326,840	83,223	319,336	84,264
Funds used in continuing operations	(171,171)	(288,963)	(324,565)	(377,427)
Funds used in discontinued operations	-	(170,546)	-	(167,707)
Change in non-cash working capital (Note 8)	775,639	(434,575)	390,898	(1,248,102)
Cash used in operating activities	604,468	(894,084)	66,333	(1,793,236)
FINANCING ACTIVITIES				
Issue of share capital, net (Note 7)	179,400	39,333	179,400	250,034
Rights offering costs	-	(9,620)	-	(22,035)
Issue of partnership units	-	-	430,002	-
Change in non-cash working capital (Note 8)	(13,801)	(13,649)	(27,449)	(27,450)
Cash provided by financing activities	165,599	16,064	581,953	200,549
INVESTING ACTIVITIES				
Investment in property, plant and equipment (Note 3)	(5,292,237)	(785,954)	(9,007,832)	(2,287,631)
Change in non-cash working capital (Note 8)	408,578	(247,251)	1,799,290	(1,462,091)
Cash used in investing activities	(4,883,659)	(1,033,205)	(7,208,542)	(3,749,722)
Foreign exchange loss on cash held in foreign currency	(326,840)	(83,223)	(319,336)	(84,264)
DECREASE IN CASH AND SHORT-TERM DEPOSITS	(4,440,432)	(1,994,448)	(6,879,592)	(5,426,673)
CASH AND SHORT-TERM DEPOSITS, BEGINNING OF PERIOD	16,299,382	22,741,498	18,738,542	26,173,723
CASH AND SHORT-TERM DEPOSITS, END OF PERIOD	\$ 11,858,950	\$ 20,747,050	\$ 11,858,950	\$ 20,747,050

See accompanying notes.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2007 have been prepared by management in accordance with Canadian generally accepted accounting principles, using the same accounting policies as those set out in Note 1 to the audited consolidated financial statements for the year ended December 31, 2006. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006 except as described below.

Basis of presentation

Effective June 11, 2004 Eurogas transferred all but two of its major Canadian assets to Great Plains Exploration Inc. ("Great Plains"), pursuant to the Plan of Arrangement described in the Management Information Circular of Eurogas dated April 5, 2004 (the "Arrangement"). The Corporation's remaining Canadian oil and natural gas assets were sold effective May 1, 2005. As such, the results of operations for the Canadian oil and natural gas assets are presented as discontinued operations for 2006.

Certain prior period amounts have been reclassified to conform to the basis of presentation adopted for 2007.

Changes in accounting policies

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

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

Comprehensive income

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

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

Financial instruments

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

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Accounts receivable and joint venture receivables are designated as “loans and receivables”. Accounts payable and accrued liabilities are designated as “other liabilities”.

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

Accounting changes

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

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

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

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

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

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

2. PREPAIDS AND OTHER

As at June 30, 2007, the Corporation had Value Added Tax ("VAT") amounts receivable from Spanish Authorities of approximately \$714,697 related to capital investment in Spain. VAT receivable has been presented as a component of prepaids and other. At December 31, 2006, VAT receivable was \$279,590.

3. PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2007	December 31, 2006
Oil and natural gas properties:		
Spain	\$ 44,259,910	\$ 36,938,661
Tunisia	22,910,086	20,594,525
	67,169,996	57,533,186
Other:		
Furniture and fixtures	853,970	844,381
Accumulated depreciation	(689,869)	(675,612)
	\$ 67,334,097	\$ 57,701,955

Net capital investment during the period by cost centre was as follows⁽¹⁾:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Spain	\$ 4,009,057	\$ 615,157	\$ 7,321,249	\$ 1,791,870
Tunisia	1,813,525	379,404	2,315,561	662,791
	5,822,582	994,561	9,636,810	2,454,661
Furniture and fixtures	9,589	26,992	9,589	68,570
	\$ 5,832,171	\$ 1,021,553	\$ 9,646,399	\$ 2,523,231

⁽¹⁾ Includes non-cash amounts totalling \$379,134 (2006 - \$140,600) related to stock based compensation charges capitalized during the quarter and year-to-date \$477,767 (2006 - \$235,600), plus \$160,800 (2006 - \$nil) during the quarter and year-to-date (2006 - \$nil) related to an asset retirement obligation change in estimate.

a) Spain

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

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

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

Eurogas invested \$4.0 million during the second quarter of 2007 (2006 - \$615,157) and \$7.3 million year-to-date (2006 - \$1.8 million), on activities related to the Castor UGS Project. Under an Assistance Contract entered into in October 2006 and amended May 2007, the Front End Engineering and Design Study ("FEED Study") and associated activities continued with \$1.4 million spent during the quarter (2006 - \$nil) and \$3.8 million year-to-date (2006 - \$nil). In May 2007, the Corporation contracted ACS Group (under the Assistance Contract) for additional services, including preliminary detailed engineering work on a wellhead platform plus additional project management services. As at June 30, 2007, \$834,000 was due under the contract. In addition, project financing activity continued during the quarter with the assistance of Deutsche Bank under a financial advisory contract. During the quarter, the Corporation spent \$239,415 (2006 - \$nil) and \$342,986 year-to-date (2006 - \$nil) on project financing. Under the financial advisory agreement, Deutsche Bank is entitled to a fee of approximately \$92,500 per month to a maximum of \$1.1 million, plus an additional success fee.

The Corporation continues to capitalize all general and administrative ("G&A") costs incurred in association with the project, including \$538,486 incurred during the quarter (2006 - \$278,900) and \$1.8 million year-to-date (2006 - \$552,500). The majority of these costs are incurred by the Spanish subsidiary, Escal UGS S.L., with the remaining costs allocated under service agreements. The Corporation also capitalized certain stock based compensation amounts, including \$360,942 during the quarter (2006 - \$89,300) and \$441,382 year-to-date (2006 - \$89,300).

At a Castor UGS Partners meeting held on May 17, 2007, the partners agreed to a \$28 million cash call. Eurogas has already contributed its portion. The Corporation has offered to fund the minority unit holders' portion of the cash call totalling \$7.4 million by way of demand promissory notes receivable with a one-year term at a rate of six percent per annum. To date, none of the minority unit holders have contributed their portion of the cash call or signed the loan documents. Unless the minority unit holders have met their cash call obligations by August 31, 2007, Eurogas will increase its ownership in Castor UGS in proportion to the unmet cash call amounts.

Minority unit holders may choose not to pay a cash-call when requested. In that case, their interest in the natural gas storage facility would be proportionately reduced. Any unpaid cash-call amounts would be adjusted to non-controlling interest and the Corporation's interest in the project increased accordingly.

b) Tunisia

Sfax Permit

On the Corporation's 1.0 million acre offshore Sfax permit located in the Gulf of Gabes, Eurogas' capital expenditures totalled \$1.8 million during the quarter (2006 - \$379,404) and \$2.3 million year-to-date (2006 - \$662,791). In the second quarter and year-to-date, the Corporation spent \$1.6 million on its share of the purchase of, and initial stages of restoration work on, the Ocean Patriot production jack-up rig. Other capital spending during the quarter focused on the development of the Ras el Besh ("REB-3") discovery and included \$94,072 and \$415,915 year-to-date spent on operating costs and studies related to the development program. Eurogas holds a 45% interest in the Sfax permit.

In addition, during the quarter the Corporation capitalized \$102,000 (2006 - \$130,300) and \$264,000 year-to-date (2006 - \$214,600) of corporate general and administrative expenditures, and \$18,192 during the quarter (2006 - \$51,300) and \$36,385 year-to-date (2006 - \$51,300) of stock based compensation to Tunisian asset pools.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

4. CONTRACT FEE PAYABLE

On October 19, 2006 the Corporation's Spanish subsidiary, Escal, entered into an Assistance Contract with ACS Group, for the development of the Castor UGS Project. Under the terms of this contract and its addendum signed in May 2007, ACS has undertaken the Front End Engineering and Design study ("FEED") which will result in a fixed price determination for project investment as well as form the basis for an award of a turnkey Engineering, Procurement and Construction ("EPC") contract. In addition, ACS will perform preliminary engineering work related to the wellhead platform, and will provide permitting and licensing services in return for a coordination fee.

In association with the Contract, the Corporation has accrued \$4.0 million for the period from October 19, 2006 to June 30, 2007, all of which will be payable by the end of October 2007, subject to ACS completing the work.

5. RELATED PARTY TRANSACTIONS

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

Interest expense and related standby fees related to the credit facility totaled \$14,959 during the quarter (2006 - \$16,664) and year-to-date \$29,753 (2006 - \$32,974).

6. ASSET RETIREMENT OBLIGATION

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

As at June 30, 2007, the Corporation had retirement obligations associated with one well, Castor #1. To calculate the fair value of the ARO, the Corporation's estimates include total undiscounted cash flows required to settle the ARO of approximately \$3.2 million, a time horizon of 35 years, a credit adjusted risk-free rate of seven percent and an inflation rate of two percent.

The following reconciles the Corporation's asset retirement obligation at June 30, 2007:

<u>Six months ended</u>	<u>June 30, 2007</u>
Balance, beginning of period	\$ 432,762
Accretion expense	17,543
Change in estimate	160,800
Balance, end of period	<u>\$ 611,105</u>

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

7. SHARE CAPITAL

a) Issued and outstanding shares:

Common Shares	Number	Amount
Balance, January 1, 2007	123,424,763	\$ 67,719,390
Exercise of share options	1,150,000	179,400
Balance, June 30, 2007	124,574,763	\$ 67,898,790

b) Contributed surplus:

A summary of the changes in the Corporation's contributed surplus balance for the six months ended June 30, 2007 is as follows:

	Amount
Balance, January 1, 2007	\$ 2,066,878
Stock options vested ⁽¹⁾	1,226,867
Deferred share units ⁽²⁾	98,700
Balance, June 30, 2007	\$ 3,392,445

⁽¹⁾ Stock based compensation expense of \$569,634 (2006 - \$254,650) was recognized during the quarter related to stock options, year-to-date \$749,101 (2006 - \$423,484). In addition, a total of \$379,134 (2006 - \$140,600) was capitalized to international asset pools during the quarter, year-to-date \$477,767 (2006 - \$235,600). Stock based compensation is based on the estimated fair value of options and deferred share units on the grant date in accordance with the fair value method and amounts are amortized over the vesting period of the option and deferred share units.

⁽²⁾ Stock based compensation expense of \$98,700 was recognized during the quarter and year-to-date. Deferred share units vest immediately upon grant.

c) Stock based compensation:

i. Share Option Plan

Details of the Corporation's share option plan are disclosed in Note 10 to the 2006 audited consolidated financial statements.

A summary of the options outstanding as at June 30, 2007 and the change for the six-month period then ended is presented below:

	Shares	Weighted Average Exercise Price
Balance outstanding, January 1, 2007	4,605,000	\$ 1.10
Granted	2,750,000	1.12
Exercised	(1,150,000)	0.16
Expired	-	-
Balance outstanding, June 30, 2007	6,205,000	\$ 1.28

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

7. SHARE CAPITAL (cont'd)

As at June 30, 2007, options to purchase 3,188,333 common shares were exercisable as follows:

Option Price (\$)	Options Outstanding	Options Exercisable	Remaining Contractual Life (Years)
0.32	400,000	400,000	2.1
1.12	2,750,000	883,333	4.9
1.19	25,000	25,000	2.9
1.26	600,000	450,000	2.8
1.37	300,000	-	4.4
1.50	200,000	133,333	2.7
1.65	1,030,000	596,667	4.0
1.70	300,000	100,000	3.3
1.76	600,000	600,000	2.7
	6,205,000	3,188,333	

ii. Deferred Share Unit Plan ("DSUP")

Details of the Corporation's DSUP are disclosed in Note 10 to the 2006 audited consolidated financial statements. During the quarter, 105,000 deferred share units were granted and, as at June 30, 2007, 3,825,000 common shares remain available for grant under the DSUP.

d) Net earnings per share

The weighted average number of common shares outstanding for the three months ended June 30, 2007 was 123,899,489 (2006 - 123,249,489) and for the six months ended June 30, 2007 was 123,663,437 (2006 - 122,972,277). There were no dilutive options or deferred share units.

8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Accounts receivable	\$ 167,036	\$ 174,108	\$ 158,345	\$ 199,456
Prepays and other	122,884	(75,072)	(248,996)	(67,344)
Joint venture receivable	437,984	(440,748)	410,122	(551,748)
Rights offering receivable		-		-
Notes receivable	(13,801)	(13,649)	(27,449)	(27,449)
Accounts payable, accrued liabilities and taxes payable (recoverable)	456,313	(340,114)	1,870,717	(2,290,558)
Change in non-cash working capital	\$ 1,170,416	\$ (695,475)	\$ 2,162,739	\$ (2,737,643)
Relating to:				
Financing activities	\$ (13,801)	\$ (13,649)	\$ (27,449)	\$ (27,450)
Investing activities	408,578	(247,251)	1,799,290	(1,462,091)
Operating activities	\$ 775,639	\$ (434,575)	\$ 390,898	\$ (1,248,102)

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (cont'd)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Interest expense	\$ 14,959	\$ 16,664	\$ 29,753	\$ 32,974
Income taxes	66,377	52,119	66,377	52,119

9. COMMITMENTS

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

10. SUBSEQUENT EVENTS

- (a) In July 2007, the Corporation and its operating partner conducted a 60 km² 3-D shallow seismic program as part of their evaluation at the Salloum area located on the Tunisian Sfax Permit. The estimated cost of the seismic program is \$2.1 million, of which Eurogas is responsible for its 45 percent share or \$960,000
- (b) In accordance with an agreement entered into with ACS Group in December 2006, ACS acquired a 5 percent equity interest in the Corporation's subsidiary, Escal UGS S.L. for an initial payment of \$139,512, and entered into a shareholder's agreement related to Escal which included the right to appoint one person to the Board of Directors of Escal on July 26, 2007. In the case that ACS decides to sell its interest in Escal, the Corporation has pre-emption rights and a right of first refusal. Additional consideration is due upon completion of an independent valuation pursuant to project financing arrangements in the amount of 5 percent of the valuation less the initial payment. Under the Agreement, ACS acts on behalf of Escal in discussions with government/regulatory bodies regarding project approval, implementation and remuneration.

CORPORATE INFORMATION

DIRECTORS

Ned Goodman ⁽¹⁾⁽²⁾
Chairman of the Board
Toronto, Canada

M. Jaffar Khan
President &
Chief Executive Officer
London, England

Garth A.C. MacRae ⁽¹⁾⁽²⁾
Toronto, Canada

Derek H.L. Buntain ⁽¹⁾⁽²⁾
George Town, Cayman Islands

Jay Poscente
Calgary, Canada

R. James Kirker
Calgary, Canada

Jonathan Goodman
Toronto, Canada

(1) Audit Committee
(2) Compensation Committee

OFFICERS

M. Jaffar Khan
President &
Chief Executive Officer

Bruce W. Sherley
Executive Vice President
& Chief Operating Officer

Andrew E.W. Constantinidis
Vice President
& Chief Financial Officer

Jim Batchelor
Vice President, Exploration

Donald R. Leitch
Corporate Secretary

AUDITORS
Ernst & Young LLP

BANKERS
Deutsche Bank
Dundee Corporation
Scotiabank

RESERVES ENGINEERS
DeGolyer and MacNaughton
Canada Limited

LEGAL COUNSEL
Carscallen Leitch LLP

**TRANSFER AGENT AND
REGISTRAR**
Computershare Investor Services LLC

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Madame Mélika Kassar

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President

Recaredo del Potro