



EUROGAS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2010

EUROGAS CORPORATION
Consolidated Balance Sheets
(Unaudited)

As at	March 31, 2010	December 31, 2009
ASSETS		
Current		
Cash	\$ 129,639	\$ 263,328
Short term investments (Note 2)	71,885,192	74,459,138
Accounts receivable	735,108	531,510
Prepays	124,750	93,377
Loan receivable (Note 3)	604,705	660,302
Taxes recoverable	91,110	91,110
	<u>73,570,504</u>	<u>76,098,765</u>
Property, plant and equipment (Note 4)	22,478,026	21,254,980
Equity investment in Escal (Note 9)	4,147,652	4,260,789
Future income taxes	418,116	304,670
	<u>\$ 100,614,298</u>	<u>\$ 101,919,204</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,162,977	\$ 1,367,109
	<u>1,162,977</u>	<u>1,367,109</u>
Asset retirement obligation (Note 5)	1,625,485	1,602,591
Non-controlling interest (Note 6)	1,564,720	1,656,250
	<u>4,353,182</u>	<u>4,625,950</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	97,746,065	97,746,065
Contributed surplus (Note 7)	5,128,992	5,120,116
Deficit	(6,801,326)	(5,837,044)
Accumulated other comprehensive income	187,385	264,117
	<u>96,261,116</u>	<u>97,293,254</u>
	<u>\$ 100,614,298</u>	<u>\$ 101,919,204</u>

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

EUROGAS CORPORATION
Consolidated Statements of Operations
For the three months ended March 31, 2010 and 2009
(Unaudited)

	2010	2009
REVENUE		
Interest and other	\$ 101,627	\$ 535,264
EXPENSES		
General and administrative	1,103,732	862,151
Interest	2,006	3,496
Depreciation and accretion	27,707	153,506
Foreign exchange loss	102,515	108,095
	<u>1,235,960</u>	<u>1,127,248</u>
LOSS FROM OPERATIONS	(1,134,333)	(591,984)
Share of earnings (losses) of equity accounted investee (Note 9)	5,851	(19,351)
INCOME TAXES		
Future tax recovery	(98,572)	-
	<u>(98,572)</u>	<u>-</u>
NET LOSS BEFORE NON-CONTROLLING INTEREST	(1,029,910)	(611,335)
Non-controlling interest (Note 6)	65,628	32,067
NET LOSS FOR THE PERIOD	<u>\$ (964,282)</u>	<u>\$ (579,268)</u>
BASIC AND DILUTED NET LOSS PER SHARE (Note 10)	<u>\$ (0.01)</u>	<u>\$ -</u>

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

EUROGAS CORPORATION
Consolidated Statements of Comprehensive Loss
For the three months ended March 31, 2010 and 2009
(Unaudited)

	2010	2009
LOSS FOR THE PERIOD	\$ (964,282)	\$ (579,268)
Other comprehensive loss		
Net foreign currency loss on investment in self-sustaining operations, net of taxes of \$14,874 (2009 - \$17,143)	(104,114)	(41,971)
Non-controlling interest (Note 6)	27,382	11,038
OTHER COMPREHENSIVE LOSS	<u>(76,732)</u>	<u>(30,933)</u>
COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (1,041,014)</u>	<u>\$ (610,201)</u>

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

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

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2008	\$ 97,520,644	\$ 4,953,770	\$ (2,447,055)	\$ 416,684	\$ 100,444,043
Net loss	-	-	(3,157,976)	-	(3,157,976)
Stock based compensation	-	270,346	-	-	270,346
Other comprehensive loss	-	-	-	(152,567)	(152,567)
Issue costs	(6,579)	-	-	-	(6,579)
Costs of dividend-in-kind	-	-	(232,013)	-	(232,013)
Exercise of options	232,000	(104,000)	-	-	128,000
Balance, December 31, 2009	97,746,065	5,120,116	(5,837,044)	264,117	97,293,254
Net loss	-	-	(964,282)	-	(964,282)
Stock based compensation	-	8,876	-	-	8,876
Other comprehensive loss	-	-	-	(76,732)	(76,732)
Balance, March 31, 2010	\$ 97,746,065	\$ 5,128,992	\$ (6,801,326)	\$ 187,385	\$ 96,261,116

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

EUROGAS CORPORATION
Consolidated Statements of Cash Flows
For the three months ended March 31, 2010 and 2009
(Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (964,282)	\$ (579,268)
Non-cash items in operations		
Share of (earnings) losses from equity accounted investee	(5,851)	19,351
Depreciation and accretion	27,707	153,506
Gains on short term investments	(88,483)	(530,681)
Future income taxes	(98,572)	-
Non-controlling interest	(65,628)	(32,067)
Stock based compensation	10,356	152,418
Other	52,746	155,798
	(1,132,007)	(660,943)
Changes in non-cash working capital (Note 11)	(439,103)	(210,039)
	(1,571,110)	(870,982)
FINANCING ACTIVITIES		
Costs of dividend-in-kind	-	(152,503)
Issuance of shares, net of issue costs	-	116,367
Repayment of loan receivable	-	2,311,190
	-	2,275,054
INVESTING ACTIVITIES		
Redemptions of (investments in) short term investments, net	2,662,429	(2,000,000)
Investment in property, plant and equipment	(1,225,008)	(91,343)
	1,437,421	(2,091,343)
DECREASE IN CASH	(133,689)	(687,271)
CASH, BEGINNING OF PERIOD	263,328	2,389,613
CASH, END OF PERIOD	\$ 129,639	\$ 1,702,342

See "Supplemental Disclosure of Cash Flow Information" (Note 11)

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

EUROGAS CORPORATION
Notes to the Consolidated Financial Statements
As at and for the three months ended March 31, 2010
(Unaudited)

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

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

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

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

Comparative Figures

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

2. SHORT TERM INVESTMENTS

As at	March 31, 2010	December 31, 2009
Fair value of investments	\$ 71,885,192	\$ 74,459,138
Weighted average interest rate	0.46%	0.51%
Weighted average days to maturity	239	310

During the three months ended March 31, 2010, the Corporation recognized interest income of \$88,483 (three months ended March 31, 2009 - \$530,681) in respect of these investments.

3. LOAN RECEIVABLE

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

	Canadian dollars		Euros
Balance, December 31, 2008	\$	3,197,053	€ 1,875,545
Received during the year ended December 31, 2009		(2,311,190)	(1,435,343)
Foreign exchange loss		(225,561)	-
Balance, December 31, 2009	\$	660,302	€ 440,202
Foreign exchange loss		(55,597)	-
Balance, March 31, 2010	\$	604,705	€ 440,202

4. PROPERTY, PLANT AND EQUIPMENT

As at	March 31, 2010	December 31, 2009
Oil and natural gas properties, Tunisia	\$ 22,400,905	\$ 21,175,897
Other:		
Office equipment, furniture and fixtures	704,527	701,676
Accumulated depreciation	(627,406)	(622,593)
	\$ 22,478,026	\$ 21,254,980

Oil and Natural Gas Properties, Tunisia

Exploration and evaluation activities on Tunisian oil and gas properties are conducted through the Corporation’s variable interest investment in Eurogas International (“EII”).

	Three months ended	Year ended
	31-Mar-10	31-Dec-09
Opening balance	\$ 21,175,897	\$ 17,819,331
Transactions during the year		
Sfax Permit	434,612	1,880,051
Ras-El-Besh expenditures, net	245,255	(81,615)
Mobile offshore production unit "Ocean Patriot"	545,141	1,558,130
Closing balance	\$ 22,400,905	\$ 21,175,897

During the three months ended March 31, 2010, aggregate capitalized costs related to the Tunisian oil and gas properties were \$1,225,008 (three months ended March 31, 2009 - \$277,080).

During 2008, EII, together with its joint venture partner, Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), entered into a farmout option agreement with Delta Hydrocarbons B.V. (“Delta”), pertaining to the farmout of the Sfax Permit and the Ras-El-Besh (“REB-3”) concession in Tunisia. Under the farmout option agreement, Delta acquired a 50% interest in the Sfax joint venture and related contracts in exchange for expending US\$125 million. Capital expenditures during the period of the farmout option agreement were substantially funded by Delta pursuant to this spending commitment.

In May of 2009, Delta expressed a desire to exit from the joint venture and the farmout option agreement. Under a settlement agreement, Delta reassigned its 50% interest in the Sfax joint venture

and related contracts, in exchange for a portion of certain payments, if and when received by the joint venture, to a maximum of US\$20 million.

Payments to Delta pursuant to the settlement agreement may include a share of the proceeds from the cost oil portion of any future production revenues realized from the Sfax Permit and the Ras-El-Besh development concession and a share of the proceeds from any sale or lease of the mobile offshore production unit. Furthermore, Delta remains committed to fund 50% of any costs associated with certain retirement obligations until December 9, 2011.

5. ASSET RETIREMENT OBLIGATION

	Three months ended		Year ended
	31-Mar-10		31-Dec-09
Opening balance	\$	1,602,591	\$ 1,202,068
Revisions to estimated cash flows		-	313,897
Accretion		22,894	86,626
Closing balance	\$	1,625,485	\$ 1,602,591

Upon completion of drilling and testing the REB-3 well within the Ras-El-Besh prospect and the associated development concession, 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 the REB-3 well within certain timeframes as outlined by the Tunisian government. The joint venture has estimated that the aggregate costs required in the event of abandonment of the REB-3 well is between US\$6.5 million and US\$10 million. EII recorded an asset retirement obligation in respect of its share of the potential obligation in the event of the abandonment of the REB-3 well.

The key assumptions for the carrying amount of the asset retirement obligation at March 31, 2010 include:

- Total estimated undiscounted cash flows at March 31, 2010 of \$1,790,978 (December 31, 2009 - \$1,790,978)
- Expected settlement in fiscal 2011; and
- Credit adjusted risk free rate at which the estimated payments have been discounted of 5.7% (December 31, 2009 – 5.7%)

6. NON-CONTROLLING INTEREST

	Three months ended		Year ended
	31-Mar-10		31-Dec-09
Opening balance	\$	1,656,250	\$ 1,883,991
Non-controlling interest in results of subsidiaries		(65,628)	(182,587)
Non-controlling interest in comprehensive loss		(27,382)	(54,441)
Non-controlling interest in variable interest entities		1,480	9,287
Closing balance	\$	1,564,720	\$ 1,656,250

7. SHARE CAPITAL

Issued and Outstanding

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

Contributed Surplus

	Three months ended	Year ended
As at	31-Mar-10	31-Dec-09
Balance, beginning of period	\$ 5,120,116	\$ 4,953,770
Amortization of stock based compensation - stock options	8,876	262,922
Amortization of stock based compensation - deferred share units	-	61,200
Exercise of stock options	-	(104,000)
Exercise of deferred share units	-	(53,776)
Balance, end of period	\$ 5,128,992	\$ 5,120,116

8. STOCK BASED COMPENSATION

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

Share Option Plan

During the three months ended March 31, 2010, the Corporation recognized stock based compensation expense of \$8,876 (three months ended March 31, 2009 - \$152,418) in respect of outstanding share options.

A summary of the status of the share option plan as at March 31, 2010 and December 31, 2009 is as follows:

	March 31, 2010		December 31, 2009	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
Opening	3,985,000	\$ 1.26	5,205,000	\$ 1.21
Exercised	-	-	(400,000)	0.32
Forfeited	(1,050,000)	1.55	(820,000)	1.35
Closing	2,935,000	\$ 1.16	3,985,000	\$ 1.26

As at March 31, 2010, options to purchase common shares were exercisable as follows:

Option Price	Weighted Average Exercise Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At \$0.54	\$ 0.54	200,000	133,333	3.55
\$1.12 to \$1.18	1.12	2,275,000	2,275,000	2.11
At \$1.65	\$ 1.65	460,000	460,000	1.16

Deferred Share Unit Plan

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

As at March 31, 2010, the Corporation had granted a total of 355,000 awards pursuant to its deferred share unit plan.

Stock Based Compensation Expense in Variable Interest Entity

During the second quarter of the prior year, EII awarded stock options to certain of its directors and executive officers to purchase common shares of EII. In the three months ended March 31, 2010, stock based compensation expense in respect of these stock option awards was \$1,480 (three months ended March 31, 2009 – \$nil).

9. INCOME FROM EQUITY ACCOUNTED INVESTEE

	Three months ended 31-Mar-10	Three months ended 31-Mar-09	Year ended 31-Dec-09
Carrying value, beginning of period	\$ 4,260,789	\$ 4,522,248	\$ 4,522,248
Share of earnings (losses) of equity accounted investee	5,851	(19,351)	(24,879)
Share of other comprehensive loss from equity accounted investee	(118,988)	(59,114)	(236,580)
Carrying value, end of period	\$ 4,147,652	\$ 4,443,783	\$ 4,260,789

10. NET LOSS PER SHARE

For the three months ended March 31,	2010	2009
Net loss attributable to shareholders	\$ (964,282)	\$ (579,268)
Weighted average number of common shares outstanding	156,118,453	156,091,786
Basic and diluted net loss per share	\$ (0.01)	\$ -

11. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in Non-cash Working Capital

For the three months ended March 31,	2010	2009
Accounts receivable	\$ (203,598)	\$ 48,926
Accounts payable and accrued liabilities	(204,132)	(191,955)
Prepays	(31,373)	16,490
Taxes recoverable	-	(83,500)
Changes in non-cash working capital	\$ (439,103)	\$ (210,039)

During the three months ended March 31, 2010 and 2009, the Corporation made the following cash outlays in respect of interest expense and income taxes:

For the three months ended March 31,		2010	2009
Interest expense	\$	2,006	\$ 3,496
Income taxes	\$	-	\$ 83,500

12. RELATED PARTY TRANSACTIONS

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

Services Arrangement with Dundee Resources Limited

Dundee Resources Limited, a wholly owned subsidiary of the Corporation's parent, Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. In the three month period ended March 31, 2010, the Corporation incurred costs of \$200,329 (three months ended March 31, 2009 - \$127,376) in respect of these arrangements.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include amounts due to Dundee Corporation and certain subsidiaries of Dundee Corporation. At March 31, 2010, these amounts were \$210,035.

13. COMMITMENTS

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

14. FINANCIAL INSTRUMENTS

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

Fair Value of Financial Instruments

At March 31, 2010, the Corporation's investments in GICs were the only financial instruments carried on the balance sheet at fair value. The investments are short term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value. The valuation methodology used by the Corporation in its assessment of fair value includes an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Risk Management

The Corporation's financial instruments are exposed to financial risks due to the nature of the Corporation's business and the financial assets and liabilities that the Corporation holds. A detailed description of the nature of these risks is provided in Note 16 to the 2009 Audited Consolidated Financial Statements. In general, for every 50 basis point increase in market interest rates, net earnings before income taxes would increase by approximately \$87,000 and conversely, a 50 basis point decrease in market interest rates would decrease net earnings before income taxes by \$71,000.

15. FUTURE ACCOUNTING DEVELOPMENTS

Implementation of International Financial Reporting Standards

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

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

16. SUBSEQUENT EVENTS

Subsequent to March 31, 2010, the Corporation announced that it had entered into an agreement with Talisman Energy Canada to purchase a 95% working interest in certain onshore oil properties and a 65% working interest in certain offshore gas assets in Ontario for a cash purchase price, before closing adjustments, of \$131 million, subject to certain conditions (the "Acquisition"). The Acquisition is scheduled to close on May 27, 2010, with an effective date of March 1, 2010. The Corporation expects to fund the Acquisition using available cash and short term investments and through the use of a newly established bank credit facility.

Pursuant to the terms of the Acquisition, the Corporation was obligated to extend an offer, under the same terms and conditions, to the holder of the remaining 35% working interest in certain of the offshore gas assets acquired. While the Corporation has extended such offer, there is no certainty that the holder of the 35% working interest will agree to sell such interest to the Corporation.