



EUROGAS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This interim management's discussion and analysis has been prepared with an effective date of April 27, 2010, and provides an update on matters discussed in, and should be read in conjunction with the audited consolidated financial statements of the Corporation, including the notes thereto, as at and for the year ended December 31, 2009 ("2009 Audited Consolidated Financial Statements") and the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2010 (the "March 2010 Interim Consolidated Financial Statements"). All amounts are in Canadian dollars unless otherwise specified. Financial data has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise specified.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources, and other risk factors discussed or referred to in the section entitled "Business Risks" in the Corporation's management's discussion and analysis accompanying its 2009 Audited Consolidated Financial Statements 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.

STRATEGIC INITIATIVES – ACQUISITION OF ONTARIO OIL AND GAS ASSETS

In April of the current year, the Corporation announced that it had entered into an agreement, subject to due diligence, to acquire from Talisman Energy Canada certain oil and gas assets in Ontario for a cash purchase price, before closing adjustments, of \$131 million (the "Acquisition"). The Acquisition has an effective date of March 1, 2010 and is expected to close on or about May 27, 2010.

Once completed, the Acquisition will provide the Corporation with the largest accumulation of oil and natural gas assets in Ontario.

The assets, all located in and around Lake Erie, in Ontario, include a 95% working interest in 65,000 acres of onshore oil properties as well as a 65% working interest in 902,000 acres of offshore gas properties. Current net production volumes from these assets include 760 barrels per day ("bpd") of 42° API oil and condensate as well as

11.1 million cubic feet per day (MMcf/d) of natural gas. Combined, this represents net production volumes of 2,610 barrels of oil equivalent per day¹ (boed), generating approximately \$25 million of cash flows per annum, even at current low gas prices. The Acquisition will provide the Corporation with a stable foundation of high netback production with significant low risk development potential.

Management, together with independent qualified reserves evaluators and engineers estimate proved reserves of 66 billion cubic feet of gas with a reserve life index² of 16.3 years as well as 2 million barrels of oil with a reserve life index of 6.9 years.

As part of the acquisition, the Corporation is also acquiring a 65% ownership interest in certain other assets including an offshore fleet of drilling and completion vessels, three gas plants and three compressor stations, all located onshore, and a 100% interest in four oil batteries. The acquisition also provides for ownership of 13,400 km of 2-D seismic and 317 km² of 3-D seismic.

The Acquisition provides the Corporation with potential growth opportunities, including a significant number of development drilling locations as well as opportunities for well re-completions and the optimization of the existing infrastructure system. Importantly, our quest to acquire these assets includes the potential for the development of gas storage of large capacity, the feasibility of which we will evaluate over the next year.

Part of the \$131 million purchase price will be funded using the Corporation's cash and short term investments. The Corporation is arranging for a bank credit facility from a banking syndicate to finance the balance of the cash purchase price.

As part 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 the offshore natural gas assets. While the Corporation has extended such offer and accordingly, has made the necessary financial arrangements, there is no certainty that the holder of the 35% working interest will agree to sell their interest to the Corporation.

Going forward, the Corporation intends to deploy cash flows generated by these assets to optimize existing production, further field development, and for debt servicing so that the Corporation's balance sheet remains strong.

SPANISH OIL AND GAS PROJECTS

The Corporation's 73.7% owned subsidiary, Castor UGS Limited Partnership ("CLP"), holds a 33% interest in the Castor Exploration Permit through its investment in Escal UGS S.L. ("Escal"). The Castor Exploration Permit is owned directly by Escal and covers the abandoned Amposta oil field, which will be utilized by Escal for its Castor underground gas storage project ("Castor Project"). On June 15, 2008, the exploration permit was replaced by a development concession, which allows Escal to construct and utilize the Castor Project (the "Development Concession"). Upon completion, the Castor Project and facility will become a regulated utility forming a crucial element of Spain's energy infrastructure.

CLP has entered into agreements with ACS Servicios Comunicacions y Energia S.L. ("ACS") and Enagas, S.A. pursuant to which ACS acquired a 66.7% interest in Escal. In turn, Enagas S.A., the technical manager of the gas

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

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

system and common carrier for the high pressure gas network in Spain, will acquire 50% of ACS's interest in Escal at commissioning and start-up of the Castor Project, subject to certain terms and conditions.

The Castor Underground Gas Storage Project

The Castor Project and facility will provide Spain with urgently needed gas storage capacity by converting the abandoned Amposta oil field to gas storage operations. The project consists of an underground gas storage reservoir that lies at a depth of 1,800 metres, approximately 21 kilometres off the east coast of Spain in the Mediterranean Sea; two offshore platforms for 13 wells and processing facilities; an onshore compression and processing plant located in the municipality of Vinaroz and an adjoining 30-inch pipeline. The estimated cost of the Castor Project is €1.131 billion (Cdn\$1.6 billion), with gas injection scheduled to begin in 2012.

The Castor underground gas storage facility's anticipated 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.

Regulator and Remuneration Regime

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

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

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

Onshore Site

The local authorities approved the site for the proposed onshore facilities in early 2008 and Escal has completed the procurement of land. The routing of the subsea pipeline from the shore to the site of the onshore facilities has been established and the necessary right of ways were granted. Earth works commenced mid-February of the current year.

Engineering, Procurement, Construction ("EPC")

Escal has submitted its budget to the Ministry of Industry with planned spending of \$1.6 billion (€1.131 billion) which may be revised from time to time. As at March 31, 2010, \$489 million (€356 million) has been spent. The budget outlines spending for permitting, engineering, procurement and land acquisition. ACS, in its capacity as the overall EPC contractor has awarded most of the major contracts, including the EPC and the transportation of the two offshore platforms, namely, the wellhead platform and the process platform, the drilling of 12 offshore wells, and the EPC of the onshore facilities. EPC contracts are pending for the installation of the onshore and offshore pipelines.

Detailed engineering for all facets of the project is underway. The tubulars required for the drilling of the wells have been procured and delivery is expected shortly.

Enagas S.A. has contracted and will pay for the construction of the pipeline needed to connect the Castor onshore facility to the national gas pipeline grid.

Construction is advancing, including construction of the process platform. Following completion of the process platform, which is expected in the third quarter of 2010, Escal will initiate a 12 well drilling program. Commencement of pipeline construction is scheduled for the fourth quarter of this year. The targeted completion date for the Castor Project is mid-2012.

TUNISIAN OIL AND GAS PROJECTS

Sfax Offshore Exploration Permit

Eurogas International is currently conducting exploration and evaluation programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where it holds an interest in the Sfax permit.

Eurogas International is a non-operating partner in the permit. In order to carry out its business activities, Eurogas International entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), pursuant to which Eurogas International and APEX agreed to undertake exploration, evaluation and extraction operations pursuant to the working interest awarded to them in the 1.0 million acre Sfax Offshore Exploration Permit (the “Sfax Permit”). APEX is the operating partner in the joint venture arrangement.

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 permit 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 APEX acquired a new 3-D seismic program over approximately 340 km² of the permit, which included the known Ras-El-Besh and Jawhara prospects that tested oil. The seismic data 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 on 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 Ras-El-Besh well (see “Ras-El-Besh Concession”) was the commitment well for the Sfax Permit. 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. As a condition of the extension, Eurogas International and its joint venture partner committed to drill an additional exploration well on the Sfax Permit during the extension period.

Eurogas International, on behalf of the joint venture, is overseeing the reprocessing of four 3-D seismic surveys on the Sfax Permit. The 340 km² Sfax program over the Ras-El-Besh and Jawhara oil prospects was completed and mapping has commenced. The 60 km² and 460 km² programs for Salloum and the Kerkennah Banks, respectively, and a portion of the older Ashtart 3-D survey are currently being reprocessed. Selected 2-D seismic lines will also be reprocessed to support the mapping of prospects and leads on the permit. Once completed, Eurogas International, together with its joint venture partner, will use the reprocessed data to remap the prospects and leads in order to determine a future course of action with respect to the drilling of an exploration well to satisfy the outstanding drilling obligation.

Ras-El-Besh Concession

In December 2005, Eurogas International and APEX applied for a development concession over the Ras-El-Besh (“REB-3”) prospect within 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. The REB-3 well is recognized by the Tunisian government as the commitment well under the initial term of the Sfax Permit, which ended on December 9, 2009.

The REB-3 well 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 drilled horizontally to 3,284 metres. The sidetrack intercepted the top of the Reineche formation in a lower fault block approximately 1,000 metres to the northwest of the REB-3 well, then drilled horizontally through 400 metres 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 reinterpretation and remapping of seismic data, after which the joint venture partners must decide to either reenter or abandon the well. This assessment is currently being conducted. In the event of abandonment, the total cost to the joint venture is estimated at between US\$6.5 million to US\$10 million. Actual costs will depend on factors such as the mobilization and demobilization cost of the rig and prevailing rates.

Mobile Offshore Production Unit

Eurogas International holds an interest in a mobile offshore production unit (“MOPU”) through its 45% investment in Innovative Production Services Ltd., which was acquired with the expectation of producing, processing and transporting oil on certain development concessions on the Sfax Permit. During the three months ended March 31, 2010, Eurogas International expended \$545,141 to renovate and upgrade the MOPU. Eurogas International along with its joint venture partner is currently evaluating alternative usage of the MOPU, including the monetization of the asset through a possible sale or lease arrangements.

Agreement with Delta Hydrocarbons B.V.

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 Permit, including the Ras-El-Besh Concession as well as a 50% interest in the MOPU, subject to a commitment to spend US\$125 million, including a cash payment to Eurogas International of \$11,161,266.

In May 2009, Delta expressed a desire to exit from the farmout agreement. Under a settlement agreement, Delta reassigned its 50% participating interest to APEX and Eurogas International. In exchange, Delta is entitled to a portion of certain payments, if and when received by the joint venture, including a share of the proceeds from the cost oil portion of any future production revenues from the Sfax Permit and a share of the proceeds from any sale or lease of the MOPU, to a maximum of US\$20 million. Delta’s entitlement pursuant to the settlement agreement is conditional on Delta meeting its obligations as defined in the settlement agreement, including Delta’s commitment to fund 50% of any costs associated with certain asset retirement obligations until December 9, 2011, as well as to fund its pro-rata share of ongoing costs associated with the Seawolf Litigation (see below).

Capital expenditures, during the period of the farmout agreement, were funded directly by Delta pursuant to its spending commitment. Subsequent to the reassignment of Delta’s participating interest, Eurogas International’s participating interest in the Sfax Permit, the Ras-El-Besh Concession and the MOPU was 45% and APEX’s

participating interest was 55%. Accordingly, Eurogas International is responsible for 45% of ongoing capital expenditures related to these activities.

The Seawolf Litigation

APEX, as operator under the Sfax joint venture commenced arbitration proceedings against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited (collectively, "Seawolf") under the rules of the London Court of International Arbitration ("LCIA"). APEX, on behalf of the joint venture, filed a statement of case seeking damages for misrepresentations and breach of a drilling contract in respect of the REB-3 well, as well as payment of indemnities under the contract. Seawolf responded by filing a counterclaim. In April 2010, the parties reached an agreement in principle for a proposed settlement of the arbitration proceedings. The settlement provides for the payment, by Seawolf to the joint venture, of up to a maximum of approximately US\$12 million, which is to be secured by a bank guarantee from a recognized international bank. The settlement remains subject to the parties receiving an executed formal settlement agreement and bank guarantee. Eurogas International's interest in any settlement proceeds is subject to final determination under its joint venture agreement with APEX and the joint venture's farmout and settlement agreements with Delta, but will be no less than 22.5%.

2010 Expenditures - Tunisian Asset Pool

All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations. During the three months ended March 31, 2010, an aggregate of \$1.2 million (three months ended March 31, 2009 - \$0.3 million) was capitalized to the Tunisian asset pool.

	Three months ended 31-Mar-10
Opening balance	\$ 21,175,897
Transactions during the period	
Sfax Permit	434,612
Ras-El-Besh expenditures, net	245,255
Mobile offshore production unit "Ocean Patriot"	545,141
Closing balance	\$ 22,400,905

Work Program for 2010

The estimated budget for the Sfax Permit and the Ras-El-Besh Concession during the remainder of 2010, including costs associated with the Seawolf Litigation, is US\$3.3 million, of which Eurogas International is responsible for its net share of US\$1.5 million.

Following the results of the REB-3 well and the exit of Delta, the joint venture partners focused on reevaluating the Ras-El-Besh Concession area and north of it covering both the Reineche and the El Garia formations. Initially, this entailed geological studies and the reprocessing of four existing 3-D seismic programs and selected 2-D seismic lines. The work program includes geophysical evaluation of the satellite structures to the 330 million barrel Ashtar oil field adjacent to the eastern boundary of the Sfax Permit.

The work program for the remainder of 2010 includes feasibility studies to evaluate the Salloum oil prospect as a future 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, Eurogas International and APEX acquired 60 km² of shallow water 3-D seismic over this prospect. Revised mapping based on the 3-D seismic program acquired in 2007 and older 2-D seismic suggests the Salloum structure extends toward the shoreline and could be drilled from an onshore location, the viability of which will be an aspect of the feasibility study.

Eurogas International continues to supervise the reprocessing of the 2007 3-D program and will remap the Salloum structure to determine a drillable location.

CONSOLIDATED RESULTS OF OPERATIONS

The Corporation's current energy projects in both Spain and Tunisia are in the development, exploration and evaluation stage and therefore, the Corporation does not generate operating revenues.

The three months ended March 31, 2010 compared with the three months ended March 31, 2009

The Corporation incurred a net loss during the three months ended March 31, 2010 of \$1.0 million compared with a net loss of \$0.6 million in the same period of the prior year.

Revenues in the first quarter of 2010 were \$0.1 million and consisted primarily of interest revenue earned on the Corporation's cash and short term investments. Revenues in the same period of the prior year were \$0.5 million. The decrease in revenues reflects both lower levels of cash and short term investments as well as a decrease in the average interest rates earned thereon.

General and administrative expenses incurred during the first quarter of 2010 were \$1.1 million, an increase of \$0.2 million over general and administrative expenses of \$0.9 million in the same period of 2009. The increase reflects higher professional fees, including legal and consulting fees, incurred in the first quarter of 2010 compared with the same period of 2009. Professional fees in the first quarter of 2010 include \$0.4 million relating to Eurogas International's ongoing involvement in the Seawolf Litigation (see above).

Depreciation and accretion expense during the three months ended March 31, 2010 was \$27,707 compared with \$153,506 in the first three months of 2009 and included amounts related to the MOPU and to the reclamation costs associated with the REB-3 well.

The Corporation accounts for its investment in Escal using the equity method. Accordingly, the Corporation is required to include in its net earnings and comprehensive income an amount equal to its proportionate share of the results of operations and comprehensive income generated by Escal. During the first quarter of 2010, the Corporation recognized equity earnings of \$5,851 (three months ended March 31, 2009 – loss of \$19,351). In addition, included in other comprehensive income for the first quarter of 2010 is a foreign exchange loss of \$76,732 (three months ended March 31, 2009 – loss of \$30,933) representing the Corporation's share of foreign exchange adjustments incurred on the translation of Escal's operations to Canadian dollars.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter ended:			
	31-Mar-10	31-Dec-09	30-Sep-09	30-Jun-09
Revenues	\$ 101,627	\$ 176,232	\$ 314,898	\$ 494,463
Net loss				
Operations	(1,035,761)	(962,344)	(793,506)	(967,850)
Equity participation	5,851	(3,887)	(1,641)	-
Non-controlling interest	65,628	45,019	38,768	66,733
	(964,282)	(921,212)	(756,379)	(901,117)
Funds used in (provided by) operations	(1,571,110)	(674,045)	(2,193,385)	445,270
Capital expenditures	1,225,008	261,332	951,484	1,853,121
Basic and fully diluted loss per share	\$ (0.01)	\$ (0.01)	\$ -	\$ (0.01)

	Quarter ended:			
	31-Mar-09	31-Dec-08	30-Sep-08	30-Jun-08
Revenues	\$ 535,264	\$ 584,938	\$ 537,588	\$ 282,481
Net (loss) earnings				
Operations	(591,984)	1,471,404	(1,897,397)	(1,412,773)
Equity participation	(19,351)	13,030	(10,543)	-
Non-controlling interest	32,067	(235,645)	343,995	(290,878)
	(579,268)	1,248,789	(1,563,945)	(1,703,651)
Funds used in (provided by) operations	(870,982)	(347,761)	160,225	(551,213)
Capital expenditures	267,880	1,704,905	325,687	93,067
Basic and fully diluted earnings (loss) per share	\$ -	\$ 0.01	\$ (0.01)	\$ (0.01)

LIQUIDITY AND CAPITAL RESOURCES

Cash Resources Availability

At March 31, 2010, the Corporation had consolidated cash and short term investments aggregating \$72.0 million. Short term investments consist of a portfolio of guaranteed investment certificates issued by a Canadian Schedule I Chartered Bank. Included in the Corporation's consolidated cash and short term balances is \$2.1 million held directly by Eurogas International. The Corporation's working capital, excluding working capital in Eurogas International, was \$70.3 million as at March 31, 2010.

Spain

ACS is responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may be required, from the day it became a majority shareholder of Escal through to the inclusion of the underground storage facility into the Spanish gas system, after which the Corporation will be responsible for its proportionate share of any new capital investments. Escal has submitted its budget to the Ministry of Industry with planned spending of \$1.6 billion (€1.131 billion) which may be revised from time to time. As at March 31, 2010, \$489 million (€356 million) has been spent. Interim financing has been arranged for Escal to fund project development until the project financing is completed. ACS is responsible for arranging project financing, which includes the pledging of the Corporation's shares in the company that owns the project as collateral. However, under the terms of the ACS Transaction, the Corporation is not required to provide any equity or guarantees to project finance lenders or to provide any bridge financing.

Financing Status of the Castor Project

In 2009, Escal and its shareholders engaged a group of banks to lead a process to obtain a 10-year loan for up to a maximum of €1.575 billion to finance the construction and commissioning of the Castor offshore and onshore facilities including pipelines, interest and guarantees during construction. This mandate was given to Banco Español de Crédito, S.A., Caja de Ahorros y Monte de Piedad de Madrid, Banco Santander, S.A. and Société Générale (jointly the “Coordinating Banks”), as the initial step in securing project financing and in order to establish the final terms and conditions to be agreed upon, if and when the banks formally complete the project financing.

The Coordinating Banks have conditionally completed the procurement of participants in a financing syndicate, subject to the finalization of certain terms and conditions. In the first quarter of 2010, and in order to provide further clarification of certain regulatory matters, the closing of the financing was postponed. The Corporation currently anticipates that the financing will be completed in the second quarter of this year. It is anticipated that interim bridge financing is available to Escal until such time as the project financing has been completed, at which time the bridge financing will be repaid.

Tunisia

At March 31, 2010, Eurogas International had cash and short term investments of \$2.1 million. The partners in the joint venture are pursuing a significant exploration, evaluation and drilling program. The primary plans for the Sfax Permit are to explore and evaluate and if the evaluation results in economically viable reserves, to develop the prospect and leads. In addition, if the results of the horizontal well at Ras-El-Besh indicate potential for development of the Reineche formation, additional Reineche structures within the Sfax Permit could be targeted for further evaluation.

Eurogas International currently has working capital of approximately \$1.8 million. At a 45% ownership interest, this amount would cover expenditures of \$4.0 million towards the remainder of the 2010 Work Program, which is estimated at US\$3.3 million. In the event that the joint venture partners decide to abandon the REB-3 well, the 2010 Work Program will be adjusted accordingly. Eurogas International believes that its working capital is sufficient to meet its current requirements. Any additional funding requirements would have to be accessed through debt or equity financings, farmout arrangements and/or bank borrowings. There can be no assurance that such funding or borrowing will be available to Eurogas International.

Outstanding Share Data

As at April 27, 2010, there were 156,118,453 common shares outstanding. The Corporation has also issued 2,935,000 stock options to acquire common shares of the Corporation with a weighted average exercise price of \$1.16 as well as 355,000 deferred share units.

COMMITMENTS

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

RELATED PARTY TRANSACTIONS

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

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities. These risks were detailed in the section entitled "Business Risks" in the Corporation's management's discussion and analysis accompanying its 2009 Audited Consolidated Financial Statements. At March 31, 2010, the Corporation had not identified any material changes to the risk factors affecting our business and our approach to managing those risks from those discussed in the document referred to above.

The Corporation has initiated an assessment of the risks associated with the pending acquisition of certain oil and gas assets in Ontario (see "Strategic Initiatives – Acquisition of Ontario Oil and Gas Assets"). The assessment will be completed once the acquisition has been completed.

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

ACCOUNTING POLICIES AND ESTIMATES

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

FUTURE ACCOUNTING DEVELOPMENTS

International Financial Reporting Standards ("IFRS")

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

The Corporation is participating in the IFRS implementation committee of its parent company, whose mandate is to oversee the conversion process of all of its subsidiaries, including any impact that the conversion may have on business practices, systems and internal controls over financial reporting. The Corporation's senior management from accounting and finance are members of the committee.

The primary focus of the conversion program to date has been the identification and analysis of key differences between IFRS and the Corporation's current accounting policies, which included a preliminary assessment of the various accounting alternatives offered by IFRS and the consideration of related changes to business processes and internal controls. The committee also facilitates various education and training sessions designed to support the personnel involved in the conversion process and those with ongoing financial reporting responsibilities.

Analysis of IFRS Accounting Policies Affecting the Corporation

While the following does not represent a comprehensive list of the accounting policies being addressed, these standards have been selected based on the significance of their potential impact on the Corporation's consolidated financial statements.

IFRS 1: First-time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from Canadian GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1. Transition exemptions that are expected to be relevant to the Corporation include the option to use the Canadian GAAP full-cost accounting guidance as the basis for initial measurement of oil and gas assets and the option to limit the restatement of share-based payment transactions. The Corporation expects to have its analysis of IFRS 1 exemptions and exceptions completed by June 30, 2010.

IFRS 6: Exploration for and Evaluation of Mineral Resources and Oil and Gas Prospects

Under Canadian GAAP, the Corporation follows the full-cost method of accounting for exploration and evaluation of oil and gas prospects, as well as associated development expenditures, whereby all costs related to these activities are accumulated in separate country-by-country cost centres. Although IFRS provides some guidance on accounting for exploration and evaluation activities, IFRS does not currently provide specific guidance on development activities. The Corporation is currently assessing the implications of current IFRS as it applies to its oil and gas prospects. IFRS 1 provides an optional exemption that will allow the Corporation to use its oil and gas asset balances, as determined under Canadian full-cost accounting, as the basis for initial IFRS measurement at the transition date. However, if the Corporation elects to rely on this exemption, its oil and gas assets must be tested for impairment at the transition date, using impairment guidance as provided under the IAS 36 model (see below), which focuses on a more granular level of asset aggregation than impairment testing under the Canadian GAAP full-cost method of accounting. The Corporation expects to have completed its analysis of impairment on its oil and gas properties by September 30, 2010.

IAS 36: Impairment of Assets

The Corporation is currently assessing its impairment testing models to comply with the requirements of IAS 36. This includes reviewing the organizational structure and sources of cash inflows to define the Corporation's cash generating units ("CGUs") and revising its impairment models to reflect the IAS 36 concept of recoverable amount. The Corporation expects to have completed this analysis by September 30, 2010.

IAS 27: Consolidated and Separate Financial Statements

Under Canadian GAAP, the Corporation determines whether it should consolidate an entity using two different frameworks: the VIE model and the voting control model. Under IFRS, the Corporation will consolidate an entity based solely on control, which is defined as the power to govern the financial and operating policies of an entity to obtain benefit. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control. The Corporation has not yet completed its assessment of the impact of adopting the IFRS consolidation model. The Corporation expects to have completed this assessment by June 30, 2010.

IFRS 2: Share-based Payments

Equity-settled share-based payments are measured at grant-date fair value under both IFRS and Canadian GAAP. However, there are differences related to the timing of expense recognition under the respective standards that impact the Corporation's share-based payment programs. The Corporation has identified the specific differences in accounting for share-based payments under IFRS and is currently amending its share-

based payment models in order to quantify the impact upon transition. The Corporation expects to have completed this analysis by June 30, 2010.

Other

In addition to the accounting standards listed above, the International Accounting Standards Board has a number of ongoing projects on its agenda that could potentially have an effect on the Corporation's financial reporting. While the Corporation continues to monitor these projects, the Corporation currently expects that changes will not be finalized prior to the January 1, 2011 transition date. Therefore, these projects are expected to impact the Corporation's consolidated financial statements only after the transition date.

Internal Controls

In accordance with the Corporation's approach to the certification of internal controls required under Canadian Securities Administrators' National Instrument 52-109, all entity level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from the Corporation's conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the Corporation's conversion to these new accounting standards.

The impact on internal controls is currently being assessed in light of changes in both transaction-level accounting policies and changes in financial reporting disclosure requirements. Additionally, specific controls are being established in relation to the IFRS changeover process. IFRS changeover process controls relate to such items as the selection and approval of IFRS accounting policies and the recognition and measurement of transition date journal entries. Internal control related activities will be ongoing throughout the remainder of the conversion process.

Information Technology Systems

The Corporation has not yet completed its assessment of the information technology and data system impacts of the conversion project.

Financial Reporting Expertise

The Corporation, through its participation in its parent's conversion committee, facilitated a number of formal education and training sessions designed to support the personnel involved in the conversion process and those with ongoing financial reporting responsibilities. The committee anticipates that these sessions will continue throughout 2010.

Additionally, the committee had facilitated IFRS information sessions with the Audit Committee of the Board of Directors during which management provided the Audit Committee with a review of the conversion project, including an overview of the project structure and the timeline for IFRS implementation, as well as an overview of the key areas of potential financial reporting impact. The Audit Committee will continue to receive quarterly presentations and project status updates from management.

Next Steps

In addition to the areas of focus outlined above, the Corporation is prioritizing certain IFRS conversion related activities that should be completed within a reasonable time period following January 1, 2010, in order to ensure that comparative information provided throughout 2011 is in accordance with IFRS. The Corporation will continue to work on its assessment of the impact of IFRS adoption on the Corporation's accounting policies and related processes in the second quarter of 2010. Concurrent with this effort, the conversion committee will complete its assessment of IFRS impacts on business activities and begin to implement a communication strategy, as appropriate, aimed at all stakeholders, including employees, rating agencies, and shareholders, to assist in their understanding of its transition to IFRS.

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

CONTROLS AND PROCEDURES

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

The Chief Executive Officer and Chief Financial Officer of the Corporation have also evaluated whether there were changes to the Corporation's internal control over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. No changes were identified during their evaluation.

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

ADDITIONAL INFORMATION

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