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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results is dated November 7, 2007, and is to be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes for the period ended September 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 70.0 percent ownership of Escal UGS S.L. ("Escal"), which is headquartered in Madrid, Spain and held directly by Castor UGS Limited Partnership. The percentage interest was diluted from June 30, 2007 as a result of the issuance of shares in Escal to ACS Group.

As operator, management continued to advance the Castor UGS Project on technical, financial and managerial levels during the third 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 continues to make progress with the 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 \$139,445, 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 Spanish Ministry of Industry has completed the required public review process for the Exploitation Concession, one of the steps before the Concession is granted. This process provided the opportunity for interested parties to view project documents and submit their comments. As a result of the review process and after consultation with the ministry and the local municipality, the Corporation has agreed to relocate the proposed onshore facilities to a new site further away from the town of Alcanar. Negotiations are underway for the purchase of the new site which is approximately three times the size of the Corporation's original site for the onshore terminal. The change in location is expected to have a negligible impact on the overall cost of the facility. 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. The Corporation has 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 has also been submitted.

Management currently estimates the cost of the project at \$1.2 billion; however, the Front End Engineering and Design Study (the "FEED" Study), which was just completed, 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. The Corporation funded the minority unit holders' portion of the cash call totaling \$7.4 million by way of demand secured promissory notes receivable with a rate of six percent per annum and a term of the earlier of: May 17, 2008; the closing date of a sale by the Borrower of its interest in Castor UGS LP; 240 days from the date that Escal receives its Exploitation Concession; the date the Castor UGS Project is abandoned; and the date the Castor UGS LP is dissolved. These notes are secured by a pledge of each of the partners' interests in Castor UGS LP which aggregates 21% of the Project.

2007 Development Program

(a) *Engineering and facilities*

During the three months ended September 30, 2007, capital investment on the Castor UGS Project totalled \$2.9 million, compared to \$2.3 million during the same quarter last year and \$10.2 million on a year-to-date basis compared to \$4.1 million year-to-date last year.

In accordance with the Assistance Contract entered into by Escal in October 2006 and amended in May 2007, 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 a fixed price engineering, procurement and construction ("EPC") contract. FEED Study costs include ACS fees under the Assistance Contract, outside studies and internal staff costs. The technical work of the FEED Study has been completed and cost estimates are currently being finalized. 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, \$1.4 million (2006 - \$nil) has been incurred and year-to-date \$5.1 million (2006 - \$nil).

(b) *Guarantees*

Certain guarantees are required by law through the authorization and permitting process and during operations. 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 UGS 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 \$385,864 (2006 - \$nil) and \$728,849 year-to-date (2006 - \$nil) on project financing related matters.

In order to satisfy the Spanish authorities of Escal's financial ability to undertake the Castor UGS Project, in September 2007, Dundee provided a commitment letter of €70 million (\$104 million) committing to either arranging for or providing financing to Escal and the Corporation, the terms of which has not been finalized, subject to the grant of all necessary project approvals, licences and permits on a timely basis including the Exploitation Concession. Accordingly, Escal recorded a commitment fee of €70,000 (\$103,905) in the third quarter.

(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 \$815,687 were capitalized in the quarter (2006 - \$736,532) and \$2.1 million on a year-to-date basis (2006 - \$1.8 million).

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 and its operating partner continued with activities to drill the Ras el Besh ("REB-3") prospect. Capital investment totalling \$1.6 million was incurred in the quarter (2006 - \$700,962), and \$3.9 million on a year-to-date basis (2006 - \$1.3 million), and included \$192,037 in the quarter and \$418,484 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 \$41,077 in the quarter (2006 - \$110,500) and \$305,077 on a year-to-date basis (2006 - \$325,100) 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 purchased the Ocean Patriot production jack-up rig, and took possession of the vessel in the second quarter of 2007. Costs totalling \$424,989 were incurred during the quarter (2006 - \$nil) and \$2.0 million on a year-to-date basis (2006 - \$nil) including the initial purchase price of approximately \$1.1 million. Additional funds will be required for refurbishment of the rig.

The operating partner has purchased wellbore equipment to drill REB-3 and has tendered all relevant services. The REB-3 well will satisfy the obligation to drill an exploration well on the Sfax Permit. Timing of the REB-3 drilling program will be finalized upon receipt of the drilling tender. The drilling costs are currently estimated at US\$10 million net to Eurogas, a portion of which was incurred during 2006 and during the first nine months of 2007. Further Tunisian expenditures will depend on the results achieved by the drilling of the well.

(b) *Salloum*

During the third quarter, Eurogas conducted a 3-D shallow water seismic program over a 60 km² area at a cost of \$800,007 (2006 - \$nil) as part of its evaluation of the Salloum prospect. The prospect 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 program over an area of 540 km² acquired 3-D shallow water seismic during the second quarter of 2007 and processing of the data is ongoing. 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 in these excluded lands (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, \$227,765 of interest income was earned (2006 - \$222,223) and \$587,586 (2006 - \$657,985) on a year-to-date basis. The decrease in interest revenue year-to-date reflects the decrease in cash and short-term deposits. The Corporation continues to fund its international projects with proceeds from a 2005 Rights Offering, but may draw on its facility with Dundee in the fourth quarter of 2007.

General & administrative (G&A) expenses

Net G&A expenses for the third quarter totalled \$473,831 (2006 - \$581,561) and \$1.8 million (2006 - \$1.6 million) on a year-to-date basis. Gross G&A (before capitalization to international asset pools as described below) was \$819,737 during the third quarter (2006 - \$1.0 million) and \$2.9 million (2006 - \$3.1 million) on a year-to-date basis. This translates into a 19% decrease this quarter compared to the same quarter last year, and a 6% decrease year-to-date compared to last year. Reduced travel expenses and consulting costs accounted for the decreases.

Capitalized G&A expenses

The Corporation allocated \$506,872 of G&A expenditures to its subsidiaries during the current quarter (2006 - \$461,767), and \$1.9 million (2006 - \$1.4 million) 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 September 30, 2007, the Corporation incurred stock based compensation expense of \$203,674 (2006 - \$234,270) and \$1.1 million (2006 - \$657,754) on a year-to-date basis. In addition to amounts expensed, the Corporation capitalized \$160,966 of stock based compensation to international asset pools during the quarter (2006 - \$152,370) and \$638,732 (2006 - \$339,467) on a year-to-date basis. Stock options issued in May 2007 account for the overall increase in stock based compensation on a year-to-date basis.

Income taxes

The Corporation's future income tax asset at September 30, 2007 was \$269,959 (December 31, 2006 - \$299,000) and includes \$80,238 (December 31, 2006 - \$108,000) associated with the Corporation's tangible assets and foreign exploration development expense pools, and \$189,721 (December 31, 2006 - \$191,000) associated with other corporate costs.

During the third quarter, the Corporation recognized a provision for future income tax recovery totalling \$11,959 related to continuing operations, (2006 - an expense of \$28,000) and \$29,041 (2006 - \$100,000) 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 during the third quarter of 2006.

The Corporation is subject to tax on Canadian operations. A current income tax recovery of \$68,000 was recognized during the quarter related to continuing operations (2006 - \$53,018) and a recovery of \$2,337 (2006 - \$193,018) on a year-to-date basis. In addition, during the third quarter, the Corporation received a reassessment from the tax authorities in respect of its 2002/2003 taxation years. The reassessment in aggregate was lower than was previously provided for and, accordingly, the overprovision of \$61,103 (excluding interest and penalty) was reversed in the third quarter and year-to-date.

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 \$241,981 during the quarter (2006 - \$481,626) and \$1.8 million (2006 - \$1.5 million) 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.

In the third quarter of 2007, Eurogas recorded an adjustment through earnings to include the losses of Castor UGS Limited Partnership in its calculation of non-controlling interest.

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 September 30, 2007, the weighted average common shares outstanding were 124,574,763 (2006 - 123,349,763). For the nine months ended September 30, 2007, the weighted average common shares outstanding were 123,970,551 (2006 - 123,099,489). 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 September 30, 2007.

Liquidity and capital resources

Working capital of \$11.3 million as at September 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 September 30, 2007 are cash and short-term deposits totalling \$8.2 million.

Eurogas holds a revolving credit facility with 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 September 30, 2007, \$6 million was available for use. The Corporation may draw down on this facility in the fourth quarter of 2007.

In order to satisfy the Spanish authorities of Escal's financial ability to undertake the Castor UGS Project, in September 2007, Dundee provided a commitment letter of €70 million (\$104 million) committing to either arranging for or providing financing to Escal and the Corporation, the terms of which has not been finalized, subject to the grant of all necessary project approvals, licences and permits on a timely basis including the Exploitation Concession. Accordingly, Escal recorded a commitment fee of €70,000 (\$103,905) in the third quarter.

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 additional project financing to advance the project's development. In addition to the current line of credit and project finance arrangement, management anticipates that the Corporation can continue to rely on Dundee 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. Deutsche Bank has completed its review of the Castor UGS Project, has completed a financial model, evaluated project economics and is advising the Corporation on financing alternatives. Legal and technical advisors are being identified and engaged.

At September 30, 2007, the Corporation's market value of common shares was \$142.0 million based on the closing price of \$1.14 per share and 124,574,763 shares outstanding. During the second quarter and year-to-date, Eurogas issued 1,150,000 shares through the exercise of options. The number of common shares outstanding at November 7, 2007 was 124,574,763.

Commitments

The Corporation's other commitments, other than as disclosed elsewhere, include minimum lease payments to a landlord totalling \$393,000 over the next five years including \$38,000 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 - \$16,888) and \$44,876 (2006 - \$49,862) on a year-to-date basis related to the Corporation's \$6 million credit facility. Cash interest payments are due monthly in arrears.

Escal accrued €70,000 (\$103,905) as a commitment fee for the project financing mentioned above.

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 affect 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 September 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

	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Sales, net of royalties				
Discontinued operations	\$ -	\$ -	\$ -	\$ 38,000
Interest Income	227,765	181,819	178,002	267,491
Funds provided by (used in) operations				
Continuing operations	71,588	(171,171)	(153,394)	(151,753)
Discontinued operations	-	-	-	(28,728)
Corporate total	71,588	(171,171)	(153,394)	(180,481)
Net earnings (loss)				
Continuing operations	(47,864)	(1,209,434)	(355,067)	(990,028)
Discontinued operations	-	-	-	(28,728)
Corporate total	(47,864)	(1,209,434)	(355,067)	(1,018,756)
Per share basic and fully diluted	(0.00)	(0.01)	(0.00)	(0.01)
Capital expenditures (gross)	\$4,459,396	\$5,832,171	\$3,814,228	\$1,351,721

Three months ended

	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Sales, net of royalties				
Discontinued operations	\$ 25,401	\$ 4,471	\$ 4,505	\$ (4,983)
Interest Income	222,223	220,171	215,591	124,443
Funds from (used in) operations				
Continuing operations	(194,974)	(288,963)	(88,466)	(550,097)
Discontinued operations	(6,685)	(170,546)	2,839	125,014
Corporate total	(201,659)	(459,509)	(85,627)	(425,083)
Net earnings (loss)				
Continuing operations	(481,626)	(666,535)	(310,612)	(611,772)
Discontinued operations	(6,685)	(170,546)	2,839	(129,865)
Corporate total	(488,311)	(837,081)	(307,773)	(741,637)
Per share basic and fully diluted	(0.00)	(0.01)	(0.00)	(0.01)
Capital expenditures (gross)	\$3,027,430	\$ 1,021,553	\$1,501,677	\$2,152,079

EUROGAS CORPORATION
Consolidated Balance Sheets
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current		
Cash and short-term deposits	\$ 8,205,858	\$ 18,738,542
Accounts receivable	154,375	198,464
Prepays and other (Note 2)	1,358,296	646,209
Notes receivable (Note 3)	7,528,267	-
Joint venture receivable (Note 3)	-	463,382
Taxes recoverable	113,753	-
	<u>17,360,549</u>	<u>20,046,597</u>
Notes receivable (Note 3)	1,208,106	1,166,706
Property, plant and equipment (Note 3)	71,786,759	57,701,955
Future income taxes	269,959	299,000
	<u>\$ 90,625,373</u>	<u>\$ 79,214,258</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 6,060,901	\$ 2,948,845
Taxes payable	-	53,005
	<u>6,060,901</u>	<u>3,001,850</u>
Asset retirement obligation (Note 6)	614,396	432,762
Non-controlling interest (Note 3)	11,859,892	3,946,704
	<u>18,535,189</u>	<u>7,381,316</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	67,898,790	67,719,390
Contributed surplus (Note 7)	3,757,085	2,066,878
Retained earnings	434,309	2,046,674
	<u>72,090,184</u>	<u>71,832,942</u>
	<u>\$ 90,625,373</u>	<u>\$ 79,214,258</u>

See accompanying notes.

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2007	2006	2007	2006
REVENUE				
Interest and other	\$ 227,765	\$ 222,223	\$ 587,586	\$ 657,985
EXPENSE				
General and administrative	473,831	581,561	1,849,499	1,645,262
Interest (Note 5)	15,123	16,888	44,876	49,862
Depreciation and accretion	10,025	13,250	41,824	33,222
Foreign exchange loss	111,829	11,132	431,165	95,394
	610,808	622,831	2,367,364	1,823,740
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(383,043)	(400,608)	(1,779,778)	(1,165,755)
(RECOVERY OF) PROVISION FOR INCOME TAXES	(141,062)	81,018	26,704	293,018
LOSS FROM CONTINUING OPERATIONS	(241,981)	(481,626)	(1,806,482)	(1,458,773)
NON-CONTROLLING INTEREST	194,117	-	194,117	-
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	-	(6,685)	-	(174,392)
NET LOSS AND COMPREHENSIVE LOSS	\$ (47,864)	\$ (488,311)	\$ (1,612,365)	\$ (1,633,165)
LOSS PER COMMON SHARE BASIC AND DILUTED (Note 7)				
Loss from continuing operations	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Loss from discontinued operations, net of tax	(0.00)	(0.00)	(0.00)	(0.00)
Net loss	(0.00)	(0.00)	(0.01)	(0.01)

See accompanying notes.

EUROGAS CORPORATION
Consolidated Statements of Retained Earnings
(Unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2007	2006	2007	2006
RETAINED EARNINGS, BEGINNING OF PERIOD	\$ 482,173	\$ 3,553,741	\$ 2,046,674	\$ 4,698,595
Net loss	(47,864)	(488,311)	(1,612,365)	(1,633,165)
RETAINED EARNINGS, END OF PERIOD	\$ 434,309	\$ 3,065,430	\$ 434,309	\$ 3,065,430

See accompanying notes.

EUROGAS CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Loss from continuing operations	\$ (47,864)	\$ (481,626)	\$(1,612,365)	\$ (1,458,773)
Depreciation and accretion	10,025	13,250	41,824	33,222
Recovery of future income taxes	(11,959)	28,000	29,041	100,000
Stock based compensation expense	203,674	234,270	1,051,475	657,754
Unrealized foreign exchange loss	111,829	11,132	431,165	95,394
Non-controlling interest	(194,117)	-	(194,117)	-
Funds provided by (used in) continuing operations	71,588	(194,974)	(252,977)	(572,403)
Funds used in discontinued operations	-	(6,685)	-	(174,392)
Change in non-cash working capital (Note 8)	809,255	1,604,535	1,200,153	356,433
Cash provided by (used in) operating activities	880,843	1,402,876	947,176	(390,362)
FINANCING ACTIVITIES				
Issue of share capital, net (Note 7)	-	72,900	179,400	322,933
Rights offering costs	-	-	-	(22,035)
Issue of partnership units	-	908,714	430,002	908,714
Proceeds on issuance of shares in subsidiary	139,445	-	139,445	-
Change in non-cash working capital (Note 8)	(178,574)	(277,302)	(206,023)	(304,751)
Cash (used in) provided by financing activities	(39,129)	704,312	542,824	904,861
INVESTING ACTIVITIES				
Investment in property, plant and equipment (Note 3)	(4,124,216)	(2,923,562)	(13,132,048)	(5,211,193)
Change in non-cash working capital (Note 8)	(258,761)	146,827	1,540,529	(1,315,264)
Cash used in investing activities	(4,382,977)	(2,776,735)	(11,591,519)	(6,526,457)
Foreign exchange loss on cash held in foreign currency	(111,829)	(11,132)	(431,165)	(95,394)
DECREASE IN CASH AND SHORT-TERM DEPOSITS	(3,653,092)	(680,679)	(10,532,684)	(6,107,352)
CASH AND SHORT-TERM DEPOSITS, BEGINNING OF PERIOD	11,858,950	20,747,050	18,738,542	26,173,723
CASH AND SHORT-TERM DEPOSITS, END OF PERIOD	\$ 8,205,858	\$ 20,066,371	\$ 8,205,858	\$ 20,066,371

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 nine month periods ended September 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 do not include all disclosures provided in the December 31, 2006 consolidated financial statements and should be read in conjunction with those financial statements 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, notes 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 September 30, 2007, the Corporation had Value Added Tax ("VAT") amounts receivable from Spanish Authorities of approximately \$1.1 million 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:

	September 30, 2007	December 31, 2006
Oil and natural gas properties:		
Spain	\$ 47,113,515	\$ 36,938,661
Tunisia	24,517,989	20,594,525
	71,631,504	57,533,186
Other:		
Furniture and fixtures	851,858	844,381
Accumulated depreciation	(696,603)	(675,612)
	\$ 71,786,759	\$ 57,701,955

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2007	2006	2007	2006
Spain	\$ 2,853,605	\$ 2,301,826	\$ 10,174,854	\$ 4,148,697
Tunisia	1,602,768	700,962	3,923,464	1,308,752
	4,461,508	3,002,788	14,098,318	5,457,449
Furniture and fixtures	3,023	24,642	7,477	93,212
	\$ 4,459,396	\$ 3,027,430	\$ 14,105,795	\$ 5,550,661

⁽¹⁾ Includes non-cash amounts totaling \$160,966 (2006 - \$82,967) related to stock based compensation charges capitalized during the quarter and year-to-date \$638,733 (2006 - \$339,467), plus \$160,800 year-to-date (2006 - \$nil) related to an asset retirement obligation change in estimate recorded in the second quarter of 2007.

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 installation of onshore and offshore gas storage facilities connected by a large diameter subsea pipeline. Eurogas holds a 70.0 percent working interest in the gas storage facility through its ownership in Castor UGS LP (diluted from June 30, 2007 as a result of the issuance of shares in Escal UGS S.L. to ACS Group).

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

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

Eurogas invested \$2.9 million during the third quarter of 2007 (2006 - \$2.3 million) and \$10.2 million year-to-date (2006 - \$4.1 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 \$737,775 spent during the quarter (2006 - \$nil) and \$4.4 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. In the third quarter of 2007, \$628,721 was incurred 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 \$385,864 (2006 - \$nil) and \$728,849 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 \$815,687 incurred during the quarter (2006 - \$653,565) and \$2.1 million year-to-date (2006 - \$1.5 million). The majority of these costs are incurred by the Spanish subsidiary, Escal, with the remaining costs allocated under service agreements. The Corporation also capitalized certain stock based compensation amounts, including \$142,773 during the quarter (2006 - \$82,967) and \$584,155 year-to-date (2006 - \$267,267).

At a Castor UGS Partners meeting held on May 17, 2007, the partners agreed to a \$28 million cash call. The Corporation funded the minority unit holders' portion of the cash call totaling \$7.4 million by way of demand secured promissory notes receivable with a rate of six percent per annum and a term of the earlier of: May 17, 2008; the closing date of a sale by the Borrower of its interest in Castor UGS LP; 240 days from the date that Escal receives its Exploitation Concession; the date the Castor UGS Project is abandoned; and the date the Castor UGS LP is dissolved. These notes are secured by a pledge of each of the partners' interests in Castor UGS LP which aggregates 21% of the Project.

As at June 30, 2007, the cash call amount was included as joint venture receivable. Notes receivable also include accrued interest and \$922,547 which are repayable by August 1, 2012 and also have interest at a rate of 6% per annum.

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.

The following reconciles the Corporation's non-controlling interest at September 30, 2007:

Nine months ended	September 30, 2007
Balance, beginning of period	\$ 3,946,704
Cash calls in Castor UGS LP	7,793,646
Issuance of shares in Escal	139,445
Effect of change of ownership of non-controlling interest	174,214
Non-controlling interest in results of subsidiaries	(194,117)
Balance, end of period	\$ 11,859,892

In the third quarter, ACS acquired a 5 percent equity interest in Escal for an initial payment of \$139,445. 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.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

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

b) Tunisia

Sfax Permit

On the Corporation's 1.0 million acre offshore Sfax Permit located in the Gulf of Gabes, Eurogas' capital expenditures totaled \$1.6 million during the quarter (2006 - \$700,962) and \$3.9 million year-to-date (2006 - \$1.3 million). In the third quarter, the Corporation spent \$424,989 on its share of the initial stages of restoration work on the Ocean Patriot production jack-up rig bringing the year-to-date expenditures, including the share of the purchase price, to \$2.0 million. Other capital spending focused on the development of the Ras el Besh ("REB-3") prospect and included \$1.1 million during the quarter and \$1.5 million 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 \$41,077 (2006 - \$110,500) and \$305,077 year-to-date (2006 - \$325,100) of corporate general and administrative expenditures, and \$18,193 during the quarter (2006 - \$20,900) and \$54,578 year-to-date (2006 - \$72,200) of stock based compensation to Tunisian asset pools.

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 recorded a liability of \$3.3 million as at September 30, 2007, all of which is expected to be payable by the end of 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. The facility remains unutilized as at September 30, 2007.

Interest expense and associated standby fees related to the credit facility totaled \$14,959 during the quarter (2006 - \$16,888) and year-to-date \$44,876 (2006 - \$49,862).

In order to satisfy the Spanish authorities of Escal's financial ability to undertake the Castor UGS Project, in September 2007, Dundee provided a commitment letter of €70 million (\$104 million) committing to either arranging for or providing financing to Escal and the Corporation, the terms of which has not been finalized, subject to the grant of all necessary project approvals, licences and permits on a timely basis including the Exploitation Concession. Accordingly, Escal recorded a commitment fee of €70,000 (\$103,905) in the third quarter.

These transactions were recorded at the exchange amounts.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

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 September 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 September 30, 2007:

Nine months ended	September 30, 2007
Balance, beginning of period	\$ 432,762
Accretion expense	20,834
Change in estimate	160,800
Balance, end of period	\$ 614,396

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, September 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 nine months ended September 30, 2007 is as follows:

	Amount
Balance, January 1, 2007	\$ 2,066,878
Stock options vested ⁽¹⁾	1,591,507
Deferred share units ⁽²⁾	98,700
Balance, September 30, 2007	\$ 3,757,085

⁽¹⁾ Stock based compensation expense of \$203,674 (2006 - \$152,370) was recognized during the quarter related to stock options, year-to-date \$952,775 (2006 - \$575,854). In addition, a total of \$160,966 (2006 - \$103,867) was capitalized to international asset pools during the quarter, year-to-date \$638,733 (2006 - \$339,467). 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 second quarter and year-to-date. Deferred share units vest immediately upon grant.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

7. SHARE CAPITAL (cont'd)

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 September 30, 2007 and the change for the nine-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, September 30, 2007	6,205,000	\$ 1.28

As at September 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	1.8
1.12	2,750,000	883,333	4.7
1.19	25,000	25,000	2.6
1.26	600,000	450,000	2.5
1.37	300,000	-	4.1
1.50	200,000	133,333	2.5
1.65	1,030,000	596,667	3.7
1.70	300,000	100,000	3.0
1.76	600,000	600,000	2.5
	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, no deferred share units were granted and, as at September 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 September 30, 2007 was 124,574,763 (2006 - 123,349,763) and for the nine months ended September 30, 2007 was 123,970,551 (2006 - 123,099,489). There were no dilutive options or deferred share units.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements (Unaudited)

8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2007	2006	2007	2006
Accounts receivable	\$ (114,256)	\$ (230,344)	\$ 44,089	\$ (30,888)
Prepays and other	(463,091)	606,047	(712,087)	538,703
Joint venture receivable	53,260	905,893	463,382	354,145
Notes receivable	(178,574)	(13,952)	(206,023)	(41,401)
Accounts payable, accrued liabilities and taxes payable (recoverable)	1,074,581	206,416	2,945,298	(2,084,141)
Change in non-cash working capital	\$ 371,920	\$ 1,474,060	\$ 2,534,659	\$ (1,263,582)
Relating to:				
Financing activities	\$ (178,574)	\$ (277,302)	\$ (206,023)	\$ (304,751)
Investing activities	(258,761)	146,827	1,540,529	(1,315,264)
Operating activities	\$ 809,255	\$ 1,604,535	\$ 1,200,153	\$ 356,433

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2007	2006	2007	2006
Interest expense	\$ 14,959	\$ 16,888	\$ 44,876	\$ 49,862
Income taxes	131,146	-	197,523	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.

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CORPORATE INFORMATION

DIRECTORS

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

M. Jaffar Khan
President &
Chief Executive Officer
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President &
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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

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Dundee Corporation
Scotiabank

RESERVES ENGINEERS

DeGolyer and MacNaughton
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