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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This interim Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of August 13, 2009, and provides an update on matters discussed in, and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2009 (the "Interim Financial Statements") and the audited consolidated financial statements and MD&A as at and for the year ended December 31, 2008. 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 MD&A as at and for the year ended December 31, 2008, and other documents filed from time to time with the securities administrators, all of which may be accessed at *www.sedar.com*. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what resulting benefits the Corporation will derive. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

SPANISH OIL AND GAS PROJECTS

The Corporation's 73.7% owned subsidiary, Castor UGS Limited Partnership ("CLP"), held an interest in the Castor Exploration Permit through its investment in Escal UGS S.L. ("Escal"). The Castor Exploration Permit, which was owned directly by Escal, covers the abandoned Amposta oilfield, 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 the development concession which allows Escal to construct and utilize the Castor Project. Upon completion, the Castor Project and facility will become a regulated utility forming a crucial element of Spain's energy infrastructure.

The Castor Project

In 2007, CLP entered into agreements with ACS Servicios Comunicaciones y Energia, S.L. ("ACS") and Enagas, S.A. (the "ACS Transaction") pursuant to which Escal issued shares to ACS such that ACS increased its ownership in Escal from 5% to 66.67%, reducing CLP's interest to 33.33% from 95%. The completion of the ACS Transaction was conditional on receipt of a development concession for the Castor Project which was received on May 16, 2008. Upon receipt of the development concession, the Corporation deconsolidated the various assets and liabilities of Escal previously included in the Corporation's consolidated financial statements and recorded an equity investment in Escal. As a result of the Corporation's decrease in ownership interest in Escal and the resulting deconsolidation of the assets and liabilities thereof, the Corporation realized a dilution loss of $2.3 million in the second quarter of 2008.

Under the terms of the ACS Transaction, ACS agreed that it would repay to CLP most of the amounts it previously invested in the Castor Project. These amounts, which have been included in the Corporation's Interim Financial Statements as a loan receivable, were approximately €27.9 million (Cdn$43.4 million) at the time of receipt of the development concession. As at June 30, 2009, CLP had received €27.1 million (Cdn$43.4 million) against amounts receivable and approximately €0.4 million (Cdn$0.7 million) remained outstanding. CLP may receive further amounts up to a maximum of €2.6 million (Cdn$4.1 million) at a future date, should some or all of the expenditures associated with those investments be recognized for remuneration within the Castor Project.

The Castor Project and facility will provide Spain with urgently needed gas storage capacity by converting the abandoned Amposta oilfield to gas storage operations. The project consists of an underground gas storage reservoir that lies at a depth of 1800 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 €1.3 billion (Cdn$2 billion), with gas injection scheduled to begin in 2012.

The Castor underground gas storage facility's anticipated significant working gas storage capacity of 1.3 billion cubic metres is expected to provide a reserve for seasonal and extraordinary peak demands, as well as the ability to respond to normal daily peak demands. The facility's anticipated high delivery rate of 25 million cubic metres per day will contribute strategic storage and reliability of supply to industrial and domestic customers in Spain.

Regulatory Development

Remuneration for underground gas storage includes three components: repayment of capital, return on investment and payment for operating and maintenance expenses. The capital cost of the project is returned in equal payments over the useful life of the asset, which is set at 10 years for all facilities except for the cushion gas which is set at 20 years. A provisional remuneration regime may be implemented for the period between the granting of the concession and the start-up of the facility which would provide early cash flow. After the end of the useful life, the "cost of extension of useful life" payment commences at half the rate that was paid in the last year of the useful life and continues for the remaining period of the concession (30 years plus two extensions of 10 years each). Return on investment is based on the net investment times the remuneration rate. The remuneration rate is equal to the Spanish government's 10-year bond rate plus 3.5% and is set for the full useful life of the facility. The remuneration rate would likely be approximately 7.5% to 8%. As with repayment of capital, after the end of the useful life, the cost of extension of useful life payment will commence at half the rate that was paid in the last year of useful life and continues for the remaining period of the concession. Payment for operating and maintenance includes both a fixed component and a variable component and is designed to cover actual operating and maintenance costs.

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

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

All of these secondary permits were subject to a single public review period of 30 working days, ending October 23, 2008. The Ministry of the Environment is in the process of reviewing the Environmental Impact Declaration which provides environmental approval for the project and is required before the other secondary permits will be finalized. Approval is expected shortly.

Onshore Site

A new site for the proposed onshore facilities was approved by the local authorities in early 2008. The procurement of land for the onshore facilities is nearing completion and the purchase, by Escal, of the needed land is fundamentally complete. Rights of way to route the subsea pipeline from the shore to the site of the onshore facilities are being negotiated with local landowners. Although the development concession provides for expropriation rights to ensure that all required rights of way are obtained, Escal expects that direct negotiations with landowners will result in a satisfactory routing in a more timely manner.

Engineering, Procurement, Construction

Escal has submitted its budget to the Ministry of Industry with planned 2009 spending of $467 million (€274 million). The budget outlines spending for permitting, engineering, procurement and land acquisition. Escal has issued invitations to tender and is evaluating responses for the wellhead and process platforms, as well as long lead time items such as compressors, drying units, a drilling rig and equipment related to the drilling such as casing, wellheads and production trees. Detailed engineering for the land and marine pipelines continues and an invitation to tender has been issued to purchase the pipe. Additional invitations to tender will be issued in due course.

Escal expects to spend approximately €278 million (Cdn$430 million) in 2009. In accordance with the terms of the ACS Transaction, ACS is responsible for providing equity and arranging project financing for the Castor Project, including providing all guarantees that may be required, for the period commencing on the day it became the majority shareholder of Escal through to the inclusion of the underground storage facility into the Spanish gas system.

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

TUNISIAN OIL AND GAS PROJECTS

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

Business Reorganization of Eurogas International Inc. ("Eurogas International")

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

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

Series A Preference Shares

The Series A Preference Shares rank in priority to the common shares of Eurogas International as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of Eurogas International and entitle the Corporation to a fixed preferential cumulative dividend at the rate of 4% per annum. The Series A Preference Shares may be redeemed, at the option of either Eurogas International or the Corporation, at any time, at a price equal to their face value of $32.15 million. The Corporation has indicated that it does not intend to exercise its redemption entitlement and it has agreed to accept the deferral of cumulative dividends thereon until 2011.

The Corporation has determined that its holding of Series A Preference Shares in Eurogas International constitutes a variable interest in Eurogas International. Furthermore, the Corporation has concluded that it meets the definition of a primary beneficiary of the variable interest entity and therefore, the Corporation continues to consolidate the assets and liabilities, and the results of operations of Eurogas International.

Sfax Permit

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

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

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

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

Ras El Besh

In December 2005, Eurogas International and APEX applied for a development concession over the Ras El Besh prospect (the "REB Exploitation Concession") 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 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 meters to the northwest of the REB-3 well then drilled horizontally through 400 meters of porous formation. The horizontal section was tested and produced over 1,000 barrels per day of fluid with a 10% cut of 27° API oil. Oil has now been tested at two locations 1,000 metres apart.

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

Tunisian Asset Pool

For the three and six months ended June 30, 2009, an aggregate of $1.9 million and $2.1 million, respectively (2008 - $93,067 and $1.4 million, respectively) was capitalized to the Tunisian asset pool.

For the three and six months ended June 30,				
	Three months		Six months	
	2009	2008	2009	2008
Restoration of Ocean Patriot, net	$ 857,131	$ (180,476)	$ 857,131	$ 571,825
Permit operator costs	24,030	217,397	24,030	331,183
Seismic activities	242,630	31,996	252,982	77,378
Ras-El-Besh well expenditures, net	377,050	(111,395)	564,617	117,406
Corporate general and administrative expenditures	255,885	105,000	315,020	210,000
Capitalized stock based compensation	-	41,667	-	89,825
Other expenditures	100,121	(11,122)	120,147	3,047
	$ 1,856,847	$ 93,067	$ 2,133,927	$ 1,400,664

APEX, as operator under the Sfax joint venture has 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. APEX has filed its statement of case seeking damages for misrepresentations and breach of a drilling contract as well as payment of indemnities under the contract. The next step in the proceedings is for Seawolf to file its statement of defense and counterclaim, if any.

Agreement with Delta Hydrocarbons B.V.

In April 2008, Eurogas International and APEX entered into a series of agreements (the "Delta Agreements") with Amsterdam based Delta Hydrocarbons B.V. ("Delta"), whereby Delta acquired a 50% interest in the Sfax Permit and the Ras El Besh Concession (the "Joint Venture") and a 50% interest in Innovative Production Services, Ltd. ("IPS") in exchange for the expenditure by Delta of an aggregate of US$125 million.

On May 22, 2009, Eurogas International announced that, together with APEX, it had reached an agreement with Delta with respect to Delta's previously expressed desire to exit from the Joint Venture and the related agreements. Under the agreement, Delta reassigned its 50% participating interest in the Sfax Permit and the REB-3 concession and transferred its shares in IPS to the remaining Joint Venture partners, including Eurogas International. In exchange, Delta is entitled to a portion of certain payments, if and when received by the Joint Venture, including a share, ranging from 20% to 34.17%, of the proceeds from the cost oil portion of any future production revenues and a share of the proceeds from any sale or lease of assets. Delta's rights to a share of proceeds is subject to a maximum cap of US$20 million in aggregate, and in some cases limited to a duration of 5 years. Delta remains committed to fund 50% of any costs associated with the abandonment of the REB-3 well until December 9, 2011.

During the term of the farmout agreement, capital expenditures in respect of the Tunisian asset pool were substantially funded by Delta pursuant to its US$125 million spending commitment. On completion of the reassignment, Eurogas International's participating interest in the Sfax Permit, Ras-El-Besh concession and IPS reverted to 45% and APEX's participating interest reverted to 55%. Accordingly, the Corporation is responsible for 45% of ongoing capital expenditures related to these activities.

Work Program for 2009

Following the results of the REB-3 well and the exit of Delta, the Joint Venture partners are now focused for the balance of 2009 on re-evaluating the Ras el Besh Concession area and north of it covering both the Reineche and the El Garia formations. Initially, this entails geological and geophysical studies and the re-processing of existing 3D seismic. The work program also includes a geophysical evaluation of the satellite structures to the 330 million barrel Ashtart oil field adjacent to the eastern boundary of the Sfax Permit.

The work program also 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 arranged for 60 km^2 of shallow water three dimensional seismic to be shot and processed over this prospect.

Revised mapping based on the 3D seismic program acquired in 2007 and older 2D seismic suggests the Salloum structure extends toward the shoreline and could be drilled from an onshore location, the viability of which will be an aspect of the feasibility study.

The estimated budget for the Sfax Permit and the Ras El Besh Concession for the remainder of 2009 is US$4.9 million, of which Eurogas is responsible for its 45% share (net US$ 2.2 million).

IPS

Eurogas International indirectly owns a 45% interest in a mobile production platform (MOPU) and two buoys through its equity ownership in IPS. The shareholders have agreed to monetize the MOPU and related equipment, either by way of sale or lease to another operator as soon as feasible. It is necessary to undertake some repairs and upgrades prior to the monetization of the MOPU, which the operating shareholder APEX is currently pursuing at a budgeted cost for 2009 of US$6 million. Delta paid US$1.9 million of the repair costs through to March 31 and Eurogas International will pay its 45% share of the remaining US$4.1 million (net US$1.8 million) during the remainder of 2009.

CONSOLIDATED RESULTS OF OPERATIONS

Net Loss

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

In the three and six months ended June 30, 2009, the Corporation incurred a net loss of $0.9 million and $1.5 million, respectively. This compares with a net loss of $1.7 million and $1.6 million, respectively incurred during the three and six months ended June 30, 2008.

Interest and Other Revenue

During the three and six months ended June 30, 2009, the Corporation earned interest and other revenue of $0.5 million and $1.0 million, respectively (2008 - $0.3 million and $0.4 million, respectively). The increase in interest and other revenue is attributed to higher levels of cash and short term deposits, as well as the Corporation's investments in discounted notes and guaranteed investment certificates. The Corporation also earned interest on amounts outstanding pursuant to its notes receivable, until these amounts were repaid in the latter part of 2008.

General & Administrative Expenses

General and administrative expenses ("G&A") not otherwise capitalized to deferred exploration asset pools, totalled $1.2 million and $2.0 million, respectively during the three and six months ended June 30, 2009 (2008 - $1.1 million and $1.3 million, respectively). The period-over-period increase in G&A expenses is attributable to higher administrative costs in the current quarter, including approximately $0.4 million in legal and consulting fees associated with the negotiation of the Delta agreements.

Share of Earnings of Equity Accounted Investee

During the three and six months ended June 30, 2009, the Corporation incurred a loss of $nil and $19,351, respectively (June 30, 2008 - $nil), representing the Corporation's proportionate interest in the losses incurred by Escal during that period.

In addition, included in other comprehensive income during the three and six months ended June 30, 2009 is a foreign exchange loss of $nil and $41,971, respectively, (June 30, 2008 - $nil and income of $411,967, respectively)

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2009, the Corporation had cash of $1.3 million and a portfolio of investments, including discounted notes and guaranteed investment certificates, with a market value of $77.2 million. Investments have been classified, and are reported as held-for-trading securities in the Corporation's Interim Financial Statements.

The Corporation's working capital was $77.7 million as at June 30, 2009 compared with $80.9 million as at December 31, 2008. The decrease in working capital resulted from the usage of cash in normal business activities.

Spain

In accordance with the terms of the ACS Transaction, 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. Escal has submitted to the Ministry of Industry a formal budget for the year of €278 million (Cdn$430 million). Interim financing has been arranged for Escal to fund project development until the project financing is completed. Although ACS is responsible for arranging project financing, the Corporation will be a party to any project finance arrangements and may need to meet certain conditions of the financing, such as the pledging of the Corporation's interest in the project as collateral. However, under the terms of the ACS Transaction, the Corporation is not required to provide any equity or warranties to project finance lenders or to provide any bridge financing.

Tunisia

The partners in the Joint Venture are pursuing a significant evaluation and drilling program.

Eurogas International currently has working capital of approximately $6.4 million. At a 45% ownership interest, this amount would cover a $14.3 million expenditure on the Sfax Permit. The remaining 2009 budget for the Sfax Permit and IPS is forecasted to total $4.0 million, net to Eurogas International. Any additional funding requirements would have to be accessed through debt or equity financings and/or bank borrowings or farmouts. There can be no assurance that such funding or borrowings would be available to Eurogas International.

Outstanding Share Data

As at August 13, 2009, there were 156,118,453 shares outstanding. The Corporation has also issued 435,000 deferred share units and 4,385,000 stock options with a weighted average exercise price of $1.25.

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SELECTED QUARTERLY FINANCIAL INFORMATION

	Quarter ended:			
	30-Jun-09	31-Mar-09	31-Dec-08	30-Sep-08
Revenues	$ 494,463	$ 535,264	$ 584,938	$ 537,588
Net (loss) earnings				
Continuing operations	(967,850)	(591,984)	1,471,404	(1,907,940)
Equity participation	-	(19,351)	13,030	(10,543)
Non-controlling interest	66,733	32,067	(235,645)	343,995
	(901,117)	(579,268)	1,248,789	(1,574,488)
Funds provided by (used in) operations	445,270	(870,982)	(1,176,678)	(390,087)
Capital expenditures	1,856,847	277,080	1,704,905	325,687
Basic and fully diluted loss per share	$ (0.01)	$ -	$ (0.01)	$ (0.01)

	Quarter ended:			
	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07
Revenues	$ 282,481	$ 160,138	$ 190,363	$ 227,765
Net (loss) earnings				
Continuing operations	(1,412,773)	(136,353)	(173,315)	(241,981)
Discontinued operations	-	-	-	194,117
Non-controlling interest	(290,878)	237,273	-	-
	(1,703,651)	100,920	(173,315)	(47,864)
Funds provided by (used in) operations	(551,213)	(3,012,027)	(261,901)	71,588
Capital expenditures	93,067	1,307,597	8,649,462	1,602,768
Basic and fully diluted loss per share	$ (0.01)	$ -	$ -	$ -

CONTINGENCIES, COMMITMENTS AND OFF BALANCE SHEET OBLIGATIONS

There have been no substantive changes in the description and nature of commitments and contingencies from those described in Note 15 to the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2008, and the associated MD&A.

RELATED PARTY TRANSACTIONS

Other than as disclosed in the notes to the interim financial statements as at and for the three and six months ended June 30, 2009, there have been no significant changes to the nature and scope of related party transactions described in Note 9 to the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2008 and the section entitled “Related Party Transactions” in the associated MD&A.

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. No changes have been identified to risk factors affecting our business and our approaches to managing these risks from those described in our MD&A as at and for the year ended December 31, 2008.

ACCOUNTING POLICIES AND ESTIMATES

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. While management reviews its estimates regularly, new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The Interim Financial Statements follow the same accounting principles and methods of application as those described in Note 1 to the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2008, except as described below under "Changes in accounting policies adopted in 2009". 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 MD&A as at and for the year ended December 31, 2008.

CHANGES IN ACCOUNTING POLICIES ADOPTED IN 2009

Asset Recognition including Goodwill and Intangible Assets

On January 1, 2009, the Corporation adopted the amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1000, *"Financial Statement Concepts"* and the new CICA Handbook Section 3064, *"Goodwill and Intangible Assets"*, which replaced CICA Handbook Section 3062, *"Goodwill and Other Intangible Assets"*. This guidance reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. Under the amendments to CICA Handbook Section 1000, effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The adoption of this new guidance had no impact on the reported results of the Corporation.

FUTURE ACCOUNTING CHANGES

Financial Instruments – Disclosures

In June 2009, the Canadian Accounting Standards Board ("AcSB") incorporated the recent amendments to International Financial Reporting Standards ("IFRS") 7, "*Financial Instruments: Disclosures*", into CICA Handbook Section 3862, "*Financial Instruments – Disclosures*". The amendments introduce a three level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The amendments are applicable to the Corporation's annual financial statements beginning with fiscal 2009. Comparative information is not required in the year of adoption. The Corporation is currently evaluating the impact of the adoption of these amendments.

Business Combinations

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

CICA Handbook Section 1582 establishes standards for the accounting of a business combination. It provides the Canadian equivalent to IFRS 3, "*Business Combinations*" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "*Consolidated and Separate Financial Statements*" (January 2008).

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

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosure that may materially impact the Corporation's consolidated financial statements.

The implementation of IFRS will apply to the Corporation's interim and annual financial statements beginning on January 1, 2011, including the restatement of comparative amounts for 2010. The Corporation has initiated an assessment of the impact of IFRS adoption on its business activities, processes and accounting policies, after which it will 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.

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 six months ended June 30, 2009, there have been no material changes in internal control over financial reporting. In common with many small companies, segregation of duties is difficult, however, compensating controls are in place at Eurogas, including key management authorizations and reviews.

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

ADDITIONAL INFORMATION

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

EUROGAS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2009

EUROGAS CORPORATION
Consolidated Balance Sheets
(Unaudited)

As at	June 30, 2009	December 31, 2008
ASSETS		
Current		
Cash	$ 1,342,218	$ 2,389,613
Accounts receivable	628,762	610,333
Investments (Note 2)	77,237,445	75,549,425
Prepaids and other	31,651	61,122
Loan receivable (Note 3)	717,396	3,197,053
Taxes recoverable	497	38,286
	79,957,969	81,845,832
Property, plant and equipment (Note 4)	20,042,164	17,921,163
Equity investment in Escal (Note 9)	4,443,783	4,522,248
Future income taxes	292,359	167,822
	$ 104,736,275	$ 104,457,065
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 2,289,291	$ 926,963
	2,289,291	926,963
Asset retirement obligation (Note 5)	1,559,278	1,202,068
Non-controlling interest (Note 6)	1,780,416	1,883,991
	5,628,985	4,013,022
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	97,744,117	97,520,644
Contributed surplus (Note 7)	5,155,743	4,953,770
Deficit	(4,178,321)	(2,447,055)
Accumulated other comprehensive income	385,751	416,684
	99,107,290	100,444,043
	$ 104,736,275	$ 104,457,065

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

EUROGAS CORPORATION
Consolidated Statements of Operations
(Unaudited)

For the three and six months ended June 30,

	Three months		Six months	
	2009	2008	2009	2008
REVENUE				
Interest and other	$ 494,463	$ 282,481	$ 1,029,727	$ 442,619
EXPENSES				
General and administrative	1,179,090	1,074,813	2,041,241	1,327,673
Interest and accretion	10,630	19,714	35,783	52,418
Depreciation	132,257	8,776	264,106	19,874
Foreign exchange loss (gain)	184,163	(1,498,358)	292,258	(1,512,554)
	1,506,140	(395,055)	2,633,388	(112,589)
(LOSS) INCOME FROM OPERATIONS	(1,011,677)	677,536	(1,603,661)	555,208
Share of losses of equity accounted investee (Note 9)	-	-	(19,351)	-
Dilution loss (Note 9)	-	(2,302,131)	-	(2,302,131)
INCOME TAXES				
Current	943	-	943	-
Future	(44,770)	(211,822)	(44,770)	(197,797)
	(43,827)	(211,822)	(43,827)	(197,797)
NET LOSS BEFORE NON-CONTROLLING INTEREST	(967,850)	(1,412,773)	(1,579,185)	(1,549,126)
Non-controlling interest	66,733	(290,878)	98,800	(53,605)
NET LOSS FOR THE PERIOD	$ (901,117)	$ (1,703,651)	$ (1,480,385)	$ (1,602,731)
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

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

EUROGAS CORPORATION
Consolidated Statements of Comprehensive Loss
(Unaudited)

For the three and six months ended June 30,

	Three months		Six months	
	2009	2008	2009	2008
LOSS FOR THE PERIOD	$ (901,117)	$ (1,703,651)	$ (1,480,385)	$ (1,602,731)
Other comprehensive income				
Net foreign currency (loss) income on investment in self-sustaining operations, net of taxes of $17,143 (2008 - $58,852)	-	411,967	(41,971)	411,967
Non-controlling interest (Note 6)	-	(108,341)	11,038	(108,341)
OTHER COMPREHENSIVE (LOSS) INCOME	-	303,626	(30,933)	303,626
COMPREHENSIVE LOSS FOR THE PERIOD	$ (901,117)	$ (1,400,025)	$ (1,511,318)	$ (1,299,105)

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

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

	Common Shares (Note 7)	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2007	$ 67,898,790	$ 4,117,269	$ 139,333	$ -	$ 72,155,392
Net loss	-	-	(1,917,887)	-	(1,917,887)
Stock based compensation	-	836,501	-	-	836,501
Other comprehensive income	-	-	-	416,684	416,684
Rights offering, net of costs	29,621,854	-	-	-	29,621,854
Costs of dividend-in-kind	-	-	(668,501)	-	(668,501)
Balance, December 31, 2008	97,520,644	4,953,770	(2,447,055)	416,684	100,444,043
Net loss	-	-	(1,480,385)	-	(1,480,385)
Stock based compensation	-	305,973	-	-	305,973
Other comprehensive loss	-	-	-	(30,933)	(30,933)
Issue costs	(8,527)	-	-	-	(8,527)
Costs of dividend-in-kind	-	-	(250,881)	-	(250,881)
Exercise of options	232,000	(104,000)	-	-	128,000
Balance, June 30, 2009	$ 97,744,117	$ 5,155,743	$ (4,178,321)	$ 385,751	$ 99,107,290

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

EUROGAS CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

For the three and six months ended June 30,

	Three months		Six months	
	2009	2008	2009	2008
OPERATING ACTIVITIES				
Net loss	$ (901,117)	$ (1,703,651)	$ (1,480,385)	$ (1,602,731)
Share of losses from equity accounted investee	-	-	19,351	-
Dilution loss	-	2,302,131	-	2,302,131
Depreciation	132,257	8,776	264,106	19,874
Future income taxes	(44,770)	(211,822)	(44,770)	(197,797)
Non-controlling interest	(66,733)	290,878	(98,800)	53,605
Stock based compensation expense	159,818	484,500	312,236	524,151
Other	(455,383)	(2,048,947)	(808,609)	(2,172,898)
	(1,175,928)	(878,135)	(1,836,871)	(1,073,665)
Change in non-cash working capital (Note 11)	1,621,198	326,922	1,411,159	(2,489,575)
	445,270	(551,213)	(425,712)	(3,563,240)
FINANCING ACTIVITIES				
Dividend-in-kind	(157,896)	-	(310,399)	-
Issuance of shares, net of issue costs	-	29,618,682	116,367	29,618,682
Notes receivable	-	-	2,311,190	-
Cash disposed of in business restructuring	-	(2,012,584)	-	(2,012,584)
Changes in amounts under lines of credit	-	(1,500,000)	-	-
	(157,896)	26,106,098	2,117,158	27,606,098
INVESTING ACTIVITIES				
Investment in discounted notes and guaranteed investment certificates	1,335,680	(34,999,918)	(664,320)	(34,999,918)
Proceeds from farmout of interest in oil and gas properties	-	11,161,266	-	11,161,266
Investment in property, plant and equipment	(1,983,178)	(328,974)	(2,074,521)	(2,542,539)
	(647,498)	(24,167,626)	(2,738,841)	(26,381,191)
INCREASE IN CASH	(360,124)	1,387,259	(1,047,395)	(2,338,333)
CASH, BEGINNING OF PERIOD	1,702,342	2,580,097	2,389,613	6,305,689
CASH, END OF PERIOD	$ 1,342,218	$ 3,967,356	$ 1,342,218	$ 3,967,356
Cash, beginning of period consisted of:				
Cash	$ 1,702,342	$ 2,580,097	$ 2,389,613	$ 1,180,753
Restricted cash	-	-	-	5,124,936
	$ 1,702,342	$ 2,580,097	$ 2,389,613	$ 6,305,689
Cash, end of period consisted of:				
Cash	$ 1,342,218	$ 3,967,356	$ 1,342,218	$ 3,967,356
Restricted cash	-	-	-	-
	$ 1,342,218	$ 3,967,356	$ 1,342,218	$ 3,967,356

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These interim consolidated financial statements of Eurogas Corporation ("Eurogas" or the "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Other than as described herein, these interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2008 ("2008 Audited Consolidated Financial Statements"). The Corporation's interim consolidated financial statements do not include all disclosures required by Canadian GAAP for annual consolidated financial statements and accordingly, should be read in conjunction with the 2008 Audited Consolidated Financial Statements.

The preparation of interim consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. All amounts are in Canadian dollars unless otherwise specified.

Changes in Accounting Policies

Asset Recognition including Goodwill and Intangible Assets

On January 1, 2009, the Corporation adopted the amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1000, *"Financial Statement Concepts"* and the new CICA Handbook Section 3064, *"Goodwill and Intangible Assets"*, which replaced CICA Handbook Section 3062, *"Goodwill and Other Intangible Assets"*. This guidance reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. Under the amendments to CICA Handbook Section 1000, effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The adoption of this new guidance had no impact on the reported results of the Corporation.

Comparative Figures

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

2. INVESTMENTS

As at	June 30, 2009	December 31, 2008
Deposits	$ 26,000,000	$ -
GICs	51,237,445	45,512,726
Discounted notes	-	30,036,699
	$ 77,237,445	$ 75,549,425

During the three and six months ended June 30, 2009, the Corporation recognized interest income of $530,681 and $1,023,700 respectively (June 30, 2008 - $36,285 and $nil, respectively), in respect of these investments.

3. LOAN RECEIVABLE

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

	Canadian dollars	Euros
Balance, December 31, 2008	$ 3,197,053	€ 1,875,544
Received during the six months ended June 30, 2009	(2,311,190)	(1,435,343)
Foreign exchange loss	(168,467)	-
Balance, June 30, 2009	$ 717,396	€ 440,201

4. PROPERTY, PLANT AND EQUIPMENT

As at	June 30, 2009	December 31, 2008
Oil and natural gas properties, Tunisia	$ 19,953,258	$ 17,819,331
Other:		
Office equipment, furniture and fixtures	699,399	832,540
Accumulated depreciation	(610,493)	(730,708)
	$ 20,042,164	$ 17,921,163

Tunisia

Sfax Permit

During the three and six months ended June 30, 2009, aggregate capital expenditures in respect of the Corporation's exploration and development activities on its Tunisian oil and gas properties amounted to $1,856,847 and $2,133,927, respectively (June 30, 2008 - $93,067 and $1,400,664, respectively). The following table shows the components of such capital expenditures.

For the three and six months ended June 30,	Three months		Six months	
	2009	2008	2009	2008
Restoration of Ocean Patriot, net	$ 857,131	$ (180,476)	$ 857,131	$ 571,825
Permit operator costs	24,030	217,397	24,030	331,183
Seismic activities	242,630	31,996	252,982	77,378
Ras-El-Besh well expenditures, net	377,050	(111,395)	564,617	117,406
Corporate general and administrative expenditures	255,885	105,000	315,020	210,000
Capitalized stock based compensation	-	41,667	-	89,825
Other expenditures	100,121	(11,122)	120,147	3,047
	$ 1,856,847	$ 93,067	$ 2,133,927	$ 1,400,664

On May 22, 2009, Eurogas International Inc. ("Eurogas International"), together with its joint venture partner, Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), reached an agreement with Delta Hydrocarbons B.V. ("Delta") with respect to Delta's previously expressed desire to exit from the joint venture and the related agreements pertaining to the farmout of the Sfax Permit and the Ras-El-Besh ("REB-3") concession in Tunisia. Under the original agreement, Delta had acquired a 50% interest in the Sfax joint venture and related contracts in exchange for expending US$125 million. Capital expenditures were, during the period of the farmout agreement, substantially funded directly by Delta pursuant to its spending commitment.

Under the new agreement, Delta reassigned its 50% participating interest in the Sfax Permit and the REB-3 concession and transferred its shares in Innovative Production Services Limited ("IPS") to the remaining joint venture partners, including 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 and a share of the proceeds from any sale or lease of assets, to a maximum of US$20 million. Delta remains committed to fund 50% of any costs associated with the abandonment of the REB-3 well until December 9, 2011.

Subsequent to the reassignment of Delta's participating interest, Eurogas International's participating interest in the Sfax Permit, REB-3 concession and IPS was 45% and APEX's participating interest was 55%. Accordingly, Eurogas International is responsible for 45% of ongoing capital expenditures related to these activities.

5. ASSET RETIREMENT OBLIGATION

Upon completion of drilling and testing the REB-3 well pursuant to the Sfax Permit in Tunisia, the joint venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig. The joint venture must either abandon or re-enter within certain timeframes. In the event of abandonment, the aggregate cost is estimated at between US$6.5 million and US$10 million. As a result, during 2008, Eurogas International recorded an asset retirement obligation of $1,202,068 in respect of its potential obligations in the event of abandonment of the well. A reconciliation of the asset retirement obligation is included in the following table. There were no liabilities incurred or settled during the three and six months ended June 30, 2009.

	For the period ended June 30, 2009		
	Three Months	Six Months	December 31, 2008
Balance, beginning of period	$ 1,537,622	$ 1,202,068	$ -
Initial estimate of discounted cash flows	-	-	1,202,068
Revisions to estimated cash flows	-	313,897	-
Accretion	21,656	43,313	-
	$ 1,559,278	$ 1,559,278	$ 1,202,068

The key assumptions on which the carrying amount of the asset retirement obligation was based included the following:

- Total undiscounted cash flow as at June 30, 2009 was $1,790,978;
- Expected settlement to be in fiscal 2011; and
- Credit adjusted risk free rate at which the estimated payments have been discounted of 5.7%.

6. NON-CONTROLLING INTEREST

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

As at		June 30, 2009		December 31, 2008
Balance, beginning of period	$	1,883,991	$	11,981,554
Distributions to non-controlling interest in cash		-		(969,821)
Distributions to non-controlling interest applied to notes receivable		-		(9,128,894)
Non-controlling interest in results of subsidiaries		(98,800)		(54,745)
Non-controlling interest in comprehensive loss		(11,038)		148,681
Non-controlling interest in variable interest entities		6,263		-
Deconsolidation of Escal (Note 9)		-		(92,784)
Balance, end of period	$	1,780,416	$	1,883,991

7. SHARE CAPITAL

Issued and Outstanding:

	Number of shares		Share capital
Common shares, December 31, 2008	155,718,453	$	97,520,644
Exercise of options	400,000		232,000
Share issue costs, net of tax	-		(8,527)
Common shares, June 30, 2009	156,118,453	$	97,744,117

Contributed Surplus:

As at		June 30, 2009		December 31, 2008
Balance, beginning of period	$	4,953,770	$	4,117,269
Amortization of stock based compensation - stock options		244,773		623,701
Amortization of stock based compensation - deferred share units		61,200		212,800
Exercise of stock options		(104,000)		-
Balance, end of period	$	5,155,743	$	4,953,770

8. STOCK BASED COMPENSATION

Share Option Plan

During the three and six months ended June 30, 2009, the Corporation recognized stock based compensation expense of $92,355 and $244,773, respectively (June 30, 2008 - $271,700 and $311,351, respectively) in respect of outstanding share options.

A summary of the status of the share option plan as at June 30, 2009 and December 31, 2008 is as follows:

	June 30, 2009		December 31, 2008	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
Opening	5,205,000	$ 1.21	6,005,000	$ 1.27
Granted	-	-	200,000	0.54
Exercised	(400,000)	0.32	-	-
Forfeited	(420,000)	1.58	(1,000,000)	1.47
Closing	4,385,000	$ 1.25	5,205,000	$ 1.21

Option Price	Weighted Average Exercise Price	Options Outstanding	Options Exercisable	Contractual Life Remaining (Years)
At $0.54	$ 0.54	200,000	66,666	4.30
$1.12 to $1.50	$ 1.14	3,125,000	3,125,000	2.56
$1.65 to $1.76	$ 1.71	1,060,000	1,060,000	1.23

Deferred Share Unit Plan

During the second quarter of 2009, the Corporation granted 120,000 deferred share unit awards and accordingly recorded an associated $61,200 (2008 - $212,800) in stock based compensation expense. As at June 30, 2009, the Corporation had granted a total of 435,000 awards pursuant to the deferred share unit plan.

Stock Based Compensation Expense in Subsidiaries

During the three months ended June 30, 2009, Eurogas International awarded stock options to certain directors and executive officers to purchase common shares of Eurogas International. Aggregate stock based compensation expense in respect of these stock option awards was $6,262 (2008 – $nil).

9. INCOME FROM EQUITY ACCOUNTED INVESTEE

Dilution of Interest in Escal

Through its investment in Escal, the Corporation holds an interest in the Castor exploration permit covering the abandoned Amposta Oilfield in Spain (the "Castor UGS Project"), which will be utilized by Escal for its underground gas storage project. The Corporation's interest in Escal is held through Castor UGS Limited Partnership ("CLP").

In 2007, CLP entered into agreements with ACS Servicios Comunicaciones y Energia, S.L. ("ACS") and Enagas, S.A. (the "ACS Transaction") pursuant to which Escal issued shares to ACS such that ACS increased its ownership interest in Escal from 5% to 66.67%, reducing CLP's interest to 33.33% from 95%. Following receipt of the Castor UGS Project development concession granted by the Spanish authorities in May 2008, the Corporation deconsolidated the various assets and liabilities of Escal previously included in the Corporation's consolidated financial statements and recorded an equity investment in Escal, reflecting its diluted ownership interest. Included in operations during the six months ended June 30, 2008 is a dilution loss of $2,302,131 in respect of the decrease in the Corporation's ownership interest in Escal.

Share of Loss from Equity Accounted Investee

For the three and six months ended June 30,	Three months 2009	Three months 2008	Six months 2009	Six months 2008
Share of loss from equity accounted investee	$ -	$ -	$ (19,351)	$ -
Share of other comprehensive (loss) income of equity accounted investee, net of tax	$ -	$ 411,967	$ (41,971)	$ 411,967

10. NET LOSS PER SHARE

As at and for the three and six months ended June 30,	Three months 2009	Three months 2008	Six months 2009	Six months 2008
Net (loss) earnings attributable to shareholders	$ (901,117)	$ (1,703,651)	$ (1,480,385)	$ (1,602,731)
Weighted average number of common shares outstanding	156,118,453	147,504,733	156,105,193	136,039,748
Basic and diluted net loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

11. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in Non-cash Working Capital

For the three and six months ended June 30,	Three months 2009	Three months 2008	Six months 2009	Six months 2008
Accounts receivable	$ (67,355)	$ (44,338)	$ (18,429)	$ 92,405
Accounts payable and accrued liabilities	1,554,283	(69,801)	1,362,328	(2,224,788)
Prepaids and others	12,981	441,061	29,471	(357,192)
Taxes recoverable	121,289	-	37,789	-
	$ 1,621,198	$ 326,922	$ 1,411,159	$ (2,489,575)

During the three and six months ended June 30, 2009 and 2008, the Corporation made the following cash outlays in respect of interest expense and income taxes:

For the three and six months ended June 30,	Three months 2009	Three months 2008	Six months 2009	Six months 2008
Interest expense (refund)	$ (11,025)	$ 17,878	$ (7,529)	$ 36,910
Income taxes	$ 120,346	$ -	$ 36,846	$ -

12. RELATED PARTY TRANSACTIONS

Other than as disclosed below, there have been no substantive changes to the description and nature of the Corporation's related party transactions described in Note 9 to the 2008 Audited Consolidated Financial Statements.

Services Arrangement with Dundee Resources Limited
Dundee Resources Limited, a wholly owned subsidiary of the Corporation's parent, Dundee Corporation, provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. In the three and six month periods ended June 30, 2009, the Corporation incurred costs of $149,108 and $276,485 respectively (June 30, 2008 - $nil), in respect of these arrangements.

13. COMMITMENTS AND CONTINGENCIES

There have been no substantive changes to the description and nature of commitments and contingencies from those described in Note 15 to the Corporation's 2008 Audited Consolidated Financial Statements.

14. FINANCIAL INSTRUMENTS

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. Detailed disclosures on the Corporation's financial instruments are included in Note 16 to the 2008 Audited Consolidated Financial Statements.

15. FUTURE ACCOUNTING CHANGES

Financial Instruments – Disclosures
In June 2009, the Canadian Accounting Standards Board ("AcSB") incorporated the recent amendments to International Financial Reporting Standards ("IFRS") 7, "*Financial Instruments: Disclosures*", into CICA Handbook Section 3862, "*Financial Instruments – Disclosures*". The amendments introduce a three level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The amendments are applicable to the Corporation's annual financial statements beginning with fiscal 2009. Comparative information is not required in the year of adoption. The Corporation is currently evaluating the impact of the adoption of these amendments.

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

CICA Handbook Section 1582 establishes standards for the accounting of a business combination. It provides the Canadian equivalent to IFRS 3, "*Business Combinations*" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a

subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "*Consolidated and Separate Financial Statements*" (January 2008).

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

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosure that may materially impact the Corporation's consolidated financial statements. The implementation of IFRS will apply to the Corporation's interim and annual financial statements beginning on January 1, 2011, including the restatement of comparative amounts for 2010. The Corporation has initiated an assessment of the impact of IFRS adoption on its business activities, processes and accounting policies, after which it will 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.

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