



Eurogas Corporation

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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. Through various subsidiaries, the Corporation is involved in conducting exploration programs for oil and natural gas offshore Tunisia and is involved in developing an underground natural gas storage facility in Spain.

This interim Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of August 14, 2008 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's unaudited consolidated financial statements as at and for the three and six months ended June 30, 2008 and the audited consolidated financial statements and MD&A as at and for the year ended December 31, 2007. 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, 2007, 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.

INTERNATIONAL OIL AND GAS PROJECTS

Spain: Business Reorganization of Escal UGS S.L. ("Escal") and The Castor Project

The Corporation's 73.7% owned subsidiary, Castor UGS Limited Partnership ("CLP"), holds an interest in the Castor Exploration Permit through its investment in Escal. The Castor Exploration Permit, which is owned directly by Escal, covers the abandoned Amposta oilfield, which will be utilized by Escal for its underground gas storage project.

As at December 20, 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 for cash proceeds of \$5.1 million 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. The Corporation incurred a dilution loss of \$2.3 million on the deconsolidation of Escal.

Under the terms of the ACS Transaction, ACS has also agreed that, within 25 days of the grant of the development concession being published, it will repay to CLP most of the amount of its prior investment in the Castor Project. These amounts include a loan receivable from Escal with a principal amount of \$44.7 million (€27.9 million) as at June 30, 2008 (previously eliminated as an inter-company balance on consolidation). On July 11, 2008, \$29.3 million (€18.3 million) of the loan to Escal was repaid.

When funds are received, amounts attributable to the non-controlling unitholders of CLP will be used to repay the notes receivable and accrued interest owed to the Corporation by these non-controlling unitholders.

The Castor Project entails the conversion of the abandoned Amposta oil field to natural gas storage operations. Upon completion, the Castor project will become a regulated utility forming a crucial element of Spain's energy infrastructure.

The Castor Project'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 project'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.

Pursuant to an assistance contract entered into in October 2006, ACS began a Front End Engineering and Design Study ("FEED Study") and initiated permitting and licensing services associated with the Castor Project. The FEED Study was completed in 2007 and produced detailed design specifications for the facility and was used to estimate the cost of the project of approximately \$2 billion, and will also be used as the basis for fixed price, date-certain Engineering, Procurement and Construction ("EPC") contracts.

The primary project permit, the development concession, was granted on May 16, 2008. A number of secondary permits are also required, and are being sought after directly by Escal.

Tunisia: Sfax Permit

Eurogas, through its Barbados-based operating subsidiary, Eurogas International Inc. ("EII") is currently conducting exploration and evaluation programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where, as of June 30, 2008, EII held a 22.5% interest in the 1.0 million acre Sfax exploration permit. EII is the non-operating partner in the permit. All costs associated with the Sfax permit are capitalized as part of the pre-production phase of operations.

On April 8, 2008, EII announced that, along with its operating partner Atlas Petroleum Exploration Worldwide, Ltd. ("APEX"), it had entered into a Farmout Agreement with Amsterdam based Delta Hydrocarbons B.V. ("Delta") with respect to the Sfax permit. The agreement has received all regulatory approvals. The farmout enables EII and APEX to meet commitments with respect to the REB Exploitation Concession as described below.

Under the agreement, Delta acquired a 50% participation in the Sfax permit, reducing EII's interest to 22.5%, subject to spending US\$125 million. Included in this amount, and as part of the transaction, EII received a cash payment of approximately \$10 million which has been applied to reduce capitalized costs to the associated international asset pool. After Delta has expended US\$125 million, the project reverts to joint venture participation and EII will be responsible for 22.5% of future payments. If Delta does not fulfill the spending commitment, EII's interest in the permit would revert to 45%.

In the three and six months ended June 30, 2008, and prior to completion of the transaction with Delta, an aggregate of \$0.1 million (2007 - \$1.8 million) and \$1.4 million (2007 - \$2.3 million), respectively was capitalized to the Tunisian asset pool. Most of these costs related to the assessment of, and equipment for, the Ras El Besh prospect.

The following table shows the components of the Corporation's expenditure for each of the respective periods:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Share of restoration and purchase of assets	\$ (180,476)	\$ 1,599,261	\$ 571,825	\$ 1,599,261
Share of APEX operator costs	217,397	94,072	331,183	415,915
Seismic activities	31,996	-	77,378	-
Ras-el-Besh well expenditures	(111,395)	-	117,406	-
Corporate general and administrative expenditures	105,000	102,000	210,000	264,000
Capitalized stock based compensation	41,667	18,192	89,825	36,385
Other expenditures	(11,122)	-	3,047	-
	\$ 93,067	\$ 1,813,525	\$ 1,400,664	\$ 2,315,561

In December 2005, EII and APEX applied for an exploitation concession over the Ras El Besh prospect (the "REB Exploitation Concession"). The application was accepted by the Hydrocarbon Committee of the Tunisian government in July 2006 and the concession will be officially awarded once it is gazetted in the official publication of government decrees. For Ras El Besh, this will occur after the commencement of drilling the REB-3 well. An exploitation concession is granted for a period of 30 years with a condition that concession development work starts within two years from the date of award. The REB-3 well is recognized by the Tunisian government as the commitment well under the terms of the Sfax exploration permit. Drilling commenced at the REB-3 well on June 16, 2008 and is not yet completed. The targets for the REB-3 well are two carbonate zones that produce oil and gas in several fields along a trend that extends from offshore Libya, through the Sfax permit, to onshore Tunisia.

The Delta Queen jack-up rig, owned by Sea Wolf Oil Services Limited, has been contracted to drill two wells, with an option for two additional wells. Subject to favourable results on the REB-3 well, an additional well, REB-4, may be drilled in the Ras El Besh structure. After drilling at Ras El Besh has been completed, the rig may be moved to evaluate the Jawhara oil structure, located approximately 30 kilometres south of Ras El Besh.

REB-3 is the first well drilled under the Farmout Agreement with Delta. In accordance with the agreement the costs of the wells are borne by Delta as part of its commitment to earn a 50% participation in the Sfax permit.

EII and its joint venture partner had entered into a farmout option agreement with Anadarko Petroleum Corporation ("Anadarko") in May 2006 pursuant to which Anadarko acquired a 520 km² 3-D seismic survey for \$15.5 million. Anadarko did not elect to proceed under the terms of the agreement by April 1, 2008 and accordingly, forfeited all rights to conduct work or receive any interest in the farmout areas.

Business reorganization of Eurogas International Inc.

On July 10, 2008, the Corporation announced it would spin-off EII by way of a dividend to holders of the Corporation's common shares. To effect the dividend, the Corporation exchanged its currently held common shares in EII for preferred shares and new common shares of EII and then immediately distributed the new common shares by way of a dividend-in-kind, to the holders on August 5, 2008, of the Corporation's common shares. The preferred shares have a \$22.15 million redemption value and pay an annual cumulative dividend of 4%.

Each holder of the Eurogas common shares will receive one common share of EII for each five Eurogas shares held. EII will have approximately 31 million shares outstanding following the distribution.

CONSOLIDATED RESULTS OF OPERATIONS

Net Loss

The Corporation's current energy projects are in the development stage and the Corporation has not generated operating revenues since its exit from Canadian oil and gas operations in 2005.

The Corporation is reporting a net loss of \$1,602,731 for the six months ending June 30, 2008 of which \$1,703,651 was incurred during the second quarter of this year. This compares with a net loss of \$1,564,501 for the six months ended June 30, 2007, including a loss of \$1,209,434 incurred in the second quarter of last year.

Included in our 2008 operating results is a dilution loss of \$2,302,131 resulting from the deconsolidation and subsequent equity accounting of our investment in Escal (see "Note 2"). Partially offsetting this dilution loss is a foreign exchange gain of \$1,512,554, relating primarily to our loan to Escal. The remaining loss reflects administrative and financing costs not otherwise attributed to international asset pools, net of interest and other miscellaneous revenues.

Interest and other revenue

During the three and six months ended June 30, 2008, the Corporation earned interest and other revenue of \$282,481 and \$442,619, respectively (2007 - \$181,819 and \$359,821, 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 which were made following the rights offering completed in April 2008. The Corporation also earns interest on outstanding notes receivable.

General & administrative expenses

General and administrative expenses ("G&A") not otherwise capitalized to international assets pools, totalled \$1,074,813 and \$1,327,673 during the three and six months ended June 30, 2008, respectively (2007 - \$956,599 and \$1,375,668, respectively). The year-to-date decrease in G&A expenses is attributable to lower stock based compensation and salaries, partially offset by higher professional and consulting services fees and other office and administrative costs.

Capitalized G&A expenses

During the three and six months ended June 30, 2008, the Corporation allocated G&A costs, including stock based compensation amounts, of \$269,030 and \$717,841, respectively (2007 - \$684,184 and \$1,220,854, respectively) to international asset pools in association with the development phase of each project, and in accordance with service agreements. The amounts allocated to each international asset pool is based on the proportion of employee time and resources dedicated to each project or upon specific fees in accordance with service agreements.

Stock based compensation expense

The Corporation incurred stock based compensation costs of \$484,500 and \$524,151 (2007 - \$668,334 and \$847,801, respectively) in the three and six months ended June 30, 2008, respectively. In addition, \$74,917 and \$20,144 (2007 - \$379,134 and \$477,767, respectively) of stock based compensation costs were capitalized to international asset pools in the three and six months ended June 30, 2008, respectively.

Income taxes

As at June 30, 2008, the Corporation's net future tax asset was \$148,174 (December 31, 2007 - \$193,127), which is comprised of future tax assets of \$294,656 (December 31, 2007 - \$193,127) related to the Corporation's tangible assets, foreign exploration development expense pools and share issue costs, offset by a future tax liability of \$146,482 (December 31, 2007 - nil) associated with the Corporation's investment in Escal.

For the period ended June 30, 2008, the Corporation recognized a tax recovery of \$197,797 (June 30, 2007 - \$167,766 provision).

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2008, the Corporation had cash and short term deposits of \$4.0 million and a portfolio of investments, including discounted notes and guaranteed investment certificates, with a market value of \$35.0 million. Investments have been classified, and are reported as held-for-trading securities in our consolidated financial statements.

The Corporation's working capital increased to \$91.6 million as at June 30, 2008 from \$2.9 million as at December 31, 2007. The increase in working capital includes receipt of \$29.6 million pursuant to the completion of a rights offering on April 24, 2008, \$11.2 million as repayment of past expenditures on the Tunisian program pursuant to the Farmout Agreement with Delta and \$44.7 million in loans to Escal that will be repaid to the Corporation as part of the completion of the ACS Transaction.

During 2008, the Corporation had drawn \$2 million under the terms of the \$6 million revolving term credit facility provided by Dundee. On completion of the rights offering in April 2008, amounts borrowed pursuant to the facility were fully repaid and the facility was cancelled. While the facility was outstanding, the Corporation incurred interest at the rate of prime plus 2% per annum, and a standby rate of 1% per annum on any undrawn portion of the facility.

The Farmout Agreement entered into with Delta in April 2008 is expected to facilitate development activities on the Sfax permit. As a condition to Delta retaining its 50% participation in the Sfax permit, Delta committed to spend US\$125.0 million on this project, including a cash payment to the Corporation of \$11.2 million. Once Delta spends the committed amount, additional program expenditures will be funded by each partner on the Sfax project, at its proportionate share.

In accordance with the terms of the ACS Transaction, ACS will be responsible for funding 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. Based on a FEED Study completed in 2007, the anticipated cost of the Castor Project is approximately \$2 billion.

With the granting of the Development Concession on May 16, 2008, which gave effect to the ACS Transaction, the commitment letter previously provided by Dundee was cancelled. The commitment letter was originally issued to Escal and the Corporation, committing to either arranging for or providing financing for the Castor project of €45 million until the projected completion of project financing and for the additional estimated equity requirement of €25 million. The Corporation is no longer required to provide any equity or warranties as may have been required by project finance lenders or to provide any bridge financing.

Outstanding Share Data

On April 24, 2008 the Corporation completed a rights offering pursuant to which it issued 31,143,690 common shares at a subscription price of \$0.97 per share. Proceeds from the rights offering, net of associated expenses of \$0.6 million, were \$29.6 million.

As at August 14, 2008, there were 155,718,453 shares outstanding. The Corporation has also issued 315,000 deferred share units and 5,005,000 stock options with a weighted average exercise price of \$1.23. Stock options outstanding have expiry dates ranging from June 2009 to May 2012.

CONTINGENCIES, COMMITMENTS AND OFF BALANCE SHEET OBLIGATIONS

Other than as disclosed in the notes to the interim unaudited consolidated financial statements for the period ended June 30, 2008, there have been no substantive changes in the description and nature of contingencies, commitments and off balance sheet obligations from those described in the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2007, and the associated MD&A.

RELATED PARTY TRANSACTIONS

During the second quarter of 2008, the Corporation repaid amounts outstanding pursuant to the \$6 million revolving term credit facility provided by Dundee, and the revolving term credit facility was subsequently cancelled.

As part of the Development Concession received on May 16, 2008, Dundee's commitment letter to the Corporation and Escal to arrange for, or provide project financing for the Castor Project has been cancelled.

There have been no other significant changes to the nature and scope of related party transactions to those described in Note 11 to the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2007 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, 2007 except as described below:

Development Projects

Following receipt of the Development Concession for the Castor Project in Spain on May 16, 2008, control of Escal and the Castor Project was transferred to ACS who will provide and/or arrange for the funding of the Castor project, including guarantees, through to the inclusion of the project in the Spanish gas system.

The agreement, announced on April 8, 2008 among the Corporation, APEX and Delta, has provided funding to develop the REB and Jawhara fields. Delta must spend \$125 million in order to retain its 50% participation in the Sfax permit. The current work program may be modified based on the results of ongoing work.

ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements in accordance with GAAP requires management to make judgements and estimates on matters that are uncertain. These estimates affect the reported amount 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 consolidated 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, 2007; except as described below under "Changes in accounting policies adopted in 2008". A summary of the more significant judgements and estimates made by management is provided in the section entitled "Critical Accounting Estimates" in the Corporation's MD&A as at and for the year ended December 31, 2007.

CHANGES IN ACCOUNTING POLICIES ADOPTED IN 2008

As of January 1, 2008, the Corporation adopted the provisions of CICA handbook sections 3862 "*Financial Instruments - Disclosures*", 3863 "*Financial Instruments - Presentation*" and 1535 "*Capital Disclosures*". The new standards include enhanced disclosure requirements on the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. In addition, section 1535 requires qualitative and quantitative disclosures that enable the users to evaluate the Corporation's objectives, policies and processes for managing capital.

The Corporation does not incur significant market risk, credit risk or liquidity risk through its activities. Financial instruments are recorded on the consolidated balance sheet at carrying values that are representative of, or approximate, fair value. (Refer also to Note 1 to the unaudited consolidated financial statements as at and for the three and six months ended June 30, 2008.)

The Corporation defines the capital that it manages as its shareholders' equity. The Corporation's objectives when managing capital include ensuring that the Corporation is able to meet its financial obligations as they become due and ensuring that the Corporation has sufficient capital available to benefit from opportunities, should they arise, in order to ensure shareholder value.

FUTURE ACCOUNTING CHANGES

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective beginning January 1, 2009. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period", will be withdrawn. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations.

On February 13, 2008, the CICA Accounting Standards Board announced the adoption of International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. IFRS will replace Canadian GAAP. The implementation will apply to the Corporation's interim and annual financial statements beginning with January 1, 2011, including the restatement of comparative amounts for 2010. While the Corporation has begun to assess the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), with the participation of the Corporation's management, are responsible for establishing and maintaining disclosure controls and procedures as well as internal controls over financial reporting for the Corporation.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is accumulated and communicated to the Corporation's management, as appropriate, to allow timely decisions regarding required disclosures. The Corporation has conducted a review and evaluation of the design of disclosure controls and procedures with the conclusion that it has an effective system of disclosures and controls. While the Corporation believes that it has adequate disclosure controls and procedures in place, there can be no assurance that such controls and procedures will prevent all occurrences of errors and fraud, as such control systems can provide only reasonable, not absolute, assurance.

Internal Control Over Financial Reporting

The Corporation's CEO and CFO are responsible for the Corporation's design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Corporation's internal controls and procedures over financial reporting. In common with other small companies, the Corporation is not of a sufficient size to justify optimal segregation of duties. However, the Corporation has established certain compensating controls, including key management authorizations and reviews. Otherwise, based on such evaluation, the CEO and CFO believe the design of internal controls over financial reporting to be sufficient to provide reasonable

assurance. During the six months ended June 30, 2008, there have been no material changes in internal control over financial reporting.

ADDITIONAL INFORMATION

Additional corporate information, including the Corporation's most recent financial statements and annual information form can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and the Corporation's website at www.eurogascorp.com.

SELECTED QUARTERLY FINANCIAL INFORMATION

Three months ended

	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Interest income	\$ 282,481	\$ 160,138	\$ 190,363	\$ 227,765
Funds provided by (used in) operations				
Continuing operations	(327,546)	(85,775)	(261,901)	71,588
Corporate total	(327,546)	(85,775)	(261,901)	71,588
Net loss				
Continuing operations	(1,412,773)	(136,353)	(173,315)	(241,981)
Non-controlling interest	(290,878)	237,273	(121,661)	194,117
Corporate total	(1,703,651)	100,920	(294,976)	(47,864)
Per share basic and fully diluted	(0.01)	(0.00)	(0.00)	(0.00)
Capital expenditures (gross)	\$ 403,891	\$ 2,158,792	\$ 8,649,462	\$ 4,459,396

Three months ended

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

EUROGAS CORPORATION
Consolidated Balance Sheets
(Unaudited)

June 30, 2008 December 31, 2007

ASSETS			
Current			
Cash and short-term deposits	\$	3,967,356	\$ 1,180,753
Restricted cash		-	5,124,936
Accounts receivable		605,016	206,306
Investments (Note 3)		35,036,203	-
Prepays and other		35,633	2,155,871
Notes receivable (Note 4)		7,847,509	7,639,629
Loan receivable (Note 5)		44,744,670	-
Taxes recoverable		196,957	196,957
		<u>92,433,344</u>	<u>16,504,452</u>
Notes receivable (Note 4)		1,249,659	1,222,059
Property, plant and equipment (Note 6)		15,901,722	80,428,862
Equity investment in Escal (Note 2)		4,345,546	-
Future income taxes		148,174	193,127
	\$	<u>114,078,445</u>	<u>\$ 98,348,500</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	845,430	\$ 8,468,930
Advance from ACS		-	5,124,936
		<u>845,430</u>	<u>13,593,866</u>
Asset retirement obligation		-	617,688
Non-controlling interest (Note 7)		12,050,717	11,981,554
		<u>12,896,147</u>	<u>26,193,108</u>
SHAREHOLDERS' EQUITY			
Share capital (Note 9)		97,680,506	67,898,790
Contributed surplus (Note 9)		4,661,564	4,117,269
Retained earnings (deficit)		(1,463,398)	139,333
Accumulated other comprehensive income		303,626	-
		<u>101,182,298</u>	<u>72,155,392</u>
	\$	<u>114,078,445</u>	<u>\$ 98,348,500</u>

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

Commitments and contingencies (Note 12)

EUROGAS CORPORATION
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
REVENUE				
Interest and other	\$ 282,481	\$ 181,819	\$ 442,619	\$ 359,821
EXPENSES				
General and administrative	1,074,813	956,599	1,327,673	1,375,668
Interest (Note 8)	19,714	14,959	52,418	29,753
Depreciation and accretion	8,776	22,089	19,874	31,799
Unrealized foreign exchange (gain) loss	(1,498,358)	326,840	(1,512,554)	319,336
	(395,055)	1,320,487	(112,589)	1,756,556
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES, DILUTION LOSS AND NON-CONTROLLING INTEREST				
	677,536	(1,138,668)	555,208	(1,396,735)
Dilution loss (Note 2)	2,302,131	-	2,302,131	-
INCOME TAXES				
Current	-	49,766	-	126,766
Future	(211,822)	21,000	(197,797)	41,000
	(211,822)	70,766	(197,797)	167,766
NET LOSS FROM OPERATIONS BEFORE NON-CONTROLLING INTEREST				
	(1,412,773)	(1,209,434)	(1,549,126)	(1,564,501)
Non-controlling interest (Note 7)	(290,878)	-	(53,605)	-
NET LOSS FOR THE PERIOD				
	\$ (1,703,651)	\$ (1,209,434)	\$ (1,602,731)	\$ (1,564,501)
BASIC AND DILUTED				
NET LOSS PER SHARE (Note 9)				
	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

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

EUROGAS CORPORATION
Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
LOSS FOR THE PERIOD				
	\$ (1,703,651)	\$ (1,209,434)	\$ (1,602,731)	\$ (1,564,501)
Other comprehensive income				
Net foreign currency income on investment				
in self-sustaining operations, net of taxes				
of \$58,852 (2007-nil) (Note 2)				
	411,967	-	411,967	-
Non-controlling interest (Note 7)	(108,341)	-	(108,341)	-
OTHER COMPREHENSIVE INCOME				
	303,626	-	303,626	-
COMPREHENSIVE				
LOSS FOR THE PERIOD				
	\$ (1,400,025)	\$ (1,209,434)	\$ (1,299,105)	\$ (1,564,501)

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

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

As at and for the six months ended June 30, 2008 and year ended December 31, 2007

	Common Shares	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2006	\$ 67,719,390	\$ 2,066,878	\$ 2,046,674	\$ -	\$ 71,832,942
Net loss	-	-	(1,907,341)	-	(1,907,341)
Stock based compensation	-	2,050,391	-	-	2,050,391
Exercise of options	179,400	-	-	-	179,400
Balance, December 31, 2007	67,898,790	4,117,269	139,333	-	72,155,392
Net loss	-	-	(1,602,731)	-	(1,602,731)
Other comprehensive income	-	-	-	303,626	303,626
Rights offering, net of costs	29,781,716	-	-	-	29,781,716
Stock based compensation	-	544,295	-	-	544,295
Balance, June 30, 2008	\$ 97,680,506	\$ 4,661,564	\$ (1,463,398)	\$ 303,626	\$ 101,182,298

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

EUROGAS CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Net loss from operations	\$ (1,703,651)	\$ (1,209,434)	\$ (1,602,731)	\$ (1,564,501)
Depreciation and accretion	8,776	22,089	19,874	31,799
Provision for (recovery of) future income taxes	(211,822)	21,000	(197,797)	41,000
Stock based compensation expense	484,500	668,334	524,151	847,801
Dilution loss	2,302,131	-	2,302,131	-
Unrealized foreign exchange (gain) loss	(1,498,358)	326,840	(1,512,554)	319,336
Non-controlling interest	290,878	-	53,605	-
	(327,546)	(171,171)	(413,321)	(324,565)
Change in non-cash working capital (Note 10)	(16,585)	775,639	(1,686,952)	390,898
Cash (used in) provided by operating activities	(344,131)	604,468	(2,100,273)	66,333
FINANCING ACTIVITIES				
Issue of share capital, net (Note 9)	29,618,682	179,400	29,618,682	179,400
Proceeds on issuance of partnership units	-	-	-	430,002
Line of credit - advances	500,000	-	2,000,000	-
Line of credit - repayment	(2,000,000)	-	(2,000,000)	-
Change in non-cash working capital (Note 10)	(111,528)	(13,801)	(235,480)	(27,449)
Cash provided by financing activities	28,007,154	165,599	29,383,202	581,953
INVESTING ACTIVITIES				
Proceeds from sale of interest in oil and gas properties (Note 6)	11,161,266	-	11,161,266	-
Investment in property, plant and equipment (Note 6)	(332,622)	(5,292,237)	(2,546,186)	(9,007,832)
Investment in discounted notes and guaranteed investment certificates ("GICs") (Note 3)	(34,999,918)	-	(34,999,918)	-
Change in fair value of investments (Note 3)	(36,285)	-	(36,285)	-
Change in restricted cash	91,175	-	3,112,352	-
Change in non-cash working capital (Note 10)	(140,660)	408,578	(1,286,790)	1,799,290
Cash used in investing activities	(24,257,044)	(4,883,659)	(24,595,561)	(7,208,542)
Foreign exchange gain (loss) on cash held in foreign currency	85,039	(326,840)	99,235	(319,336)
INCREASE (DECREASE) IN CASH AND SHORT-TERM DEPOSITS				
	3,491,018	(4,440,432)	2,786,603	(6,879,592)
CASH AND SHORT-TERM DEPOSITS, BEGINNING OF PERIOD				
	476,338	16,299,382	1,180,753	18,738,542
CASH AND SHORT-TERM DEPOSITS, END OF PERIOD				
	\$ 3,967,356	\$ 11,858,950	\$ 3,967,356	\$ 11,858,950

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

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements of Eurogas Corporation (“Eurogas” or the “Corporation”) as at and for the three and six months ended June 30, 2008 have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). 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, 2007 (“2007 Audited Consolidated Financial Statements”) except as noted below. 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 2007 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.

Basis of presentation

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries including Eurogas International Inc. (“EII”), Castor GP Ltd., Castor UGS Limited Partnership (“CLP”), Amposta Energy Europe AB and Amposta Resources S.L. On May 16, 2008 and pursuant to the granting of the Development Concession (Note 2), the Corporation’s interest in Escal UGS S.L. (“Escal”) has been deconsolidated and CLP’s interest in Escal is accounted for using the equity method. Previously, the Corporation’s interest in Escal was consolidated.

Changes in accounting policies

As of January 1, 2008, the Corporation adopted the provisions of CICA handbook sections 3862 “Financial Instruments - Disclosures”, 3863 “Financial Instruments - Presentation” and 1535 “Capital Disclosures”. The new standards include enhanced disclosure requirements on the nature and extent of risks arising from financial instruments and how the Corporation manages those risks. In addition, section 1535 requires qualitative and quantitative disclosures that enable the users to evaluate the Corporation’s objectives, policies and processes for managing capital.

Financial Instruments

The Corporation’s financial instruments include cash and short-term deposits, accounts receivable, accounts payable, notes receivable and a loan receivable. Financial instruments are recorded on the consolidated balance sheet at carrying values that are representative of, or approximate, fair value.

Eurogas also holds investments in discounted notes and GICs. These financial instruments are designated as held-for-trading. Held-for-trading financial instruments are measured at fair value, with gains and losses recognized in income in the period in which they arise.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Market Risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Corporation segregates market risk into three categories: fair value risk, interest rate risk and currency risk.

Fair Value Risk

Fair value risk is the potential for loss from an adverse movement, excluding movements relating to changes in interest rates and foreign exchange currency rates, because of changes in market prices. The Corporation is not exposed to such risk.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation incurs interest rate risk through its discounted notes and GICs and, to a lesser extent, cash and short-term deposits. The investments in discounted notes and GICs are designated as held-for-trading financial instruments and are measured at fair value. As a result, the effect of interest rate changes are recognized in net income in the period incurred. For every 50 basis point change in market interest rates, net income before income taxes related to discounted notes and GICs would change by \$149,000. Notes receivable are fixed rate and therefore are not subject to interest rate risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation periodically has accounts receivable and accounts payable denominated in foreign currencies, primarily Euros and US dollars. As a result of the deconsolidation of Escal (Note 2), the Corporation has a Euro denominated loan to Escal of \$44,744,670, an account receivable of \$506,948 and an equity investment in Escal of \$4,345,546. A \$0.01 change in the foreign exchange translation rate of Euros to Canadian dollars would change the loan and receivable amounts by approximately \$282,000 with the unrealized foreign exchange amount recognized in income. The equity investment in Escal is considered a self-sustaining operation and the current method is used for translating the results of its operations with unrealized foreign currency translation adjustments included in other comprehensive income. A \$0.01 change in the foreign exchange translation rate of Euros to Canadian dollars would change the value of the Corporation's equity investment in Escal by approximately \$17,000, with the unrealized foreign exchange amount recognized in other comprehensive income. The Corporation also has certain cash balances that are denominated in US dollars in order to facilitate US dollar transactions.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and short-term deposits held with banks, notes receivable, discounted notes and GICs and, to a lesser extent, accounts receivable. The notes receivable are secured by units in CLP. The maximum exposure to credit risk is equal to the carrying value of these financial instruments less the value of any security held.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's financial liabilities consist of accounts payable. The Corporation's line of credit was repaid in full on April 30, 2008. The Corporation mitigates liquidity risk by planning its project expenditures and securing financing facilities in advance of undertaking significant commitments.

Capital Disclosures

The Corporation defines the capital that it manages as its shareholders' equity. The Corporation's objectives when managing capital include ensuring that the Corporation is able to meet its financial obligations as they become due and ensuring that the Corporation has sufficient capital available to benefit from opportunities, should they arise in order to ensure shareholder value.

Future Accounting Changes

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

On February 13, 2008, the CICA Accounting Standards Board announced the adoption of International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. IFRS will replace Canadian GAAP. The implementation will apply to the Corporation's interim and annual financial statements beginning with January 1, 2011, including the restatement of comparative amounts for 2010. While the Corporation has begun to assess the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

2. DISPOSAL OF INTEREST IN SUBSIDIARY

The Corporation's subsidiary, CLP, holds an interest in the Castor Exploration Permit through its investment in Escal. The Castor Exploration Permit, which is owned directly by Escal, covers the abandoned Amposta oilfield, which will be utilized by Escal for its underground gas storage project.

As at December 20, 2007, the Corporation (through CLP) entered into agreements with ACS Servicios Comunicaciones y Energia, S.L. ("ACS") and Enagas, S.A. herein referred to as the "ACS Transaction". Under the ACS Transaction, Escal issued shares to ACS for cash proceeds of \$5,124,936 such that ACS increased its ownership in Escal from 5% to 66.67%, thereby reducing the interest of CLP, of which the Corporation is a 73.7% owner, to 33.33% from 95%. Refer also to Note 2 to the 2007 Audited Consolidated Financial Statements.

The ACS Transaction required that, in the event that the Development Concession for the Castor Project was not granted within 180 days of the execution of the ACS Transaction, the change in ownership would be reversed and the agreements would terminate. Current accounting principles did not permit recognition of the transaction until the Spanish authorities approved the Development Concession and accordingly, the Corporation continued to consolidate the results and balances of Escal in its financial statements until the Development Concession was granted on May 16, 2008. In addition, the cash received for the shares was reflected as restricted cash on the consolidated balance sheet with a corresponding advance from ACS of \$5,124,936.

Upon the grant 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.

Deconsolidation of assets and liabilities of Escal

Oil and natural gas properties	\$	55,914,190
Asset retirement obligation		(623,196)
Other net liabilities and non-controlling interest		(497,833)
		<hr/>
		54,793,161

Investment in Escal

Accounts receivable		491,115
Loan receivable		43,347,184
Equity investment in Escal		3,874,727
Future income taxes		(346,932)
		<hr/>
		47,366,094
		<hr/>
		7,427,067
Cash received from ACS		5,124,936
Dilution loss	\$	2,302,131

The equity investment in Escal will be adjusted in the future to reflect the Corporation's proportionate share of earnings, losses and other comprehensive income or loss of Escal. Following dilution, Escal is considered to be a self-sustaining operation. Accordingly, the current method is used for translating the results of its operations, with unrealized foreign currency translation adjustments being included in accumulated other comprehensive income.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

2. DISPOSAL OF INTEREST IN SUBSIDIARY (cont'd)

Under the terms of the ACS Transaction, ACS has agreed that, within 25 days of the grant of the Development Concession being published, it will repay to CLP the majority of the amount of its prior investment in the Castor Project. These amounts totalled \$44,744,670 (€27,893,941) at June 30, 2008 and have been included in these consolidated financial statements as a loan receivable from Escal. Previously, these amounts were eliminated on consolidation.

When funds are received, amounts attributable to the non-controlling unitholders of CLP will be applied to the notes receivable and accrued interest (Note 4) owed to the Corporation by these non-controlling unitholders, with a corresponding reduction in non-controlling interest.

3. INVESTMENTS

	June 30, 2008	December 31, 2007
GICs	\$ 600,593	\$ -
Discounted notes	34,435,610	-
	<u>\$ 35,036,203</u>	<u>\$ -</u>

The discounted notes and GICs are designated as held-for-trading. During the three and six months ended June 30, 2008, the fair value of net assets designated as held-for-trading increased by \$36,285, which was recorded in interest and other income.

4. NOTES RECEIVABLE

	June 30, 2008	December 31, 2007
Notes payable on demand	\$ 7,363,644	\$ 7,363,644
Accrued interest	483,865	275,985
	<u>7,847,509</u>	<u>7,639,629</u>
Notes due August 1, 2012	922,547	922,547
Accrued interest	327,112	299,512
	<u>1,249,659</u>	<u>1,222,059</u>
	<u>\$ 9,097,168</u>	<u>\$ 8,861,688</u>

Interest income of \$111,528 (2007 - \$13,801) and \$235,480 (2007 - \$27,449) was recorded on outstanding amounts during the three and six months ended June 30, 2008, respectively.

The notes payable on demand were originally due on May 17, 2008 and continue to accrue interest. The fair value of the notes approximates the carrying value as reported on the consolidated balance sheet.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

5. LOAN RECEIVABLE

As a result of the grant of the Development Concession on May 16, 2008 and the subsequent deconsolidation of CLP's interest in Escal, amounts advanced to Escal are reflected in the Corporation's consolidated financial statements as a loan to Escal. Previously, these amounts were eliminated as inter-company amounts in the consolidated financial statements. The loan to Escal is denominated in Euros. At June 30, 2008, amounts advanced under the loan arrangement were \$44,744,670 (€27,893,941).

On July 11, 2008, \$29,284,962 (€18,256,320) of the amount was repaid.

6. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2008	December 31, 2007
Oil and natural gas properties:		
Spain	\$ -	\$ 54,753,345
Tunisia	15,787,511	25,548,113
	15,787,511	80,301,458
Other:		
Office equipment, furniture and fixtures	832,540	831,366
Accumulated depreciation	(718,329)	(703,962)
	\$ 15,901,722	\$ 80,428,862

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Oil and natural gas properties:				
Spain	\$ 310,039	\$ 4,009,057	\$ 1,160,845	\$ 7,321,249
Tunisia	93,067	1,813,525	1,400,664	2,315,561
	403,106	5,822,582	2,561,509	9,636,810
Other:				
Office equipment, furniture and fixtures	785	9,589	1,174	9,589
	\$ 403,891	\$ 5,832,171	\$ 2,562,683	\$ 9,646,399

Oil and natural gas properties include non-cash amounts totalling \$41,667 (2007 - \$379,134) and \$89,825 (2007 - \$477,767) related to stock based compensation charges capitalized during the three and six months ended June 30, 2008, respectively. In addition, amounts in the three and six months ended June 30, 2008 are shown including a charge of \$33,250 and net of a credit of \$69,681, respectively related to forfeited stock options.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

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

a) Spain

Prior to deconsolidation, the aggregate capital expenditures on Spanish oil and gas properties amounted to \$310,067 (2007 - \$4,009,057) and \$1,160,845 (2007 - \$7,321,249) during the three and six months ended June 30, 2008, respectively.

b) Tunisia

Sfax Permit

The Corporation is a non-operating partner in the 1.0 million acre Sfax permit located offshore in the Gulf of Gabes, where the Corporation and its partners are conducting exploration programs for oil and natural gas. The Corporation's operating partner in the permit is Atlas Petroleum Exploration Worldwide Ltd. ("APEX"). The programs include spending on the development of the Ras El Besh ("REB-3") prospect as well as processing seismic data to evaluate the Salloum prospect.

On April 7, 2008, the Corporation and APEX entered into a Farmout Agreement with Delta Hydrocarbons B.V. ("Delta") whereby Delta acquired a 50% participation in the Sfax permit, reducing the Corporation's interest to 22.5%, subject to a commitment to spend US\$125,000,000. If Delta does not fulfill the spending commitment, the Corporation's interest in the permit would revert to 45%. Delta's required spending includes a cash payment to the Corporation, and funding Delta's, as well as the Corporation's and APEX's share of future program expenditures. Once Delta spends the required amount, additional program expenditures will be funded by each partner at its proportionate share.

Pursuant to the Delta agreement, Eurogas received \$11,161,266 during the three months ended June 30, 2008. Aggregate capital expenditures amounted to \$93,067 (2007 - \$1,813,525) and \$1,400,664 (2007 - \$2,315,561) during the three and six months ended June 30, 2008, respectively.

The following table shows the components of capital expenditures on Tunisian oil and gas properties for each of the respective periods:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Share of restoration and purchase of assets	\$ (180,476)	\$ 1,599,261	\$ 571,825	\$ 1,599,261
Share of permit operator costs	217,397	94,072	331,183	415,915
Seismic activities	31,996	-	77,378	-
Ras-el-Besh well expenditures	(111,395)	-	117,406	-
Corporate general and administrative expenditures	105,000	102,000	210,000	264,000
Capitalized stock based compensation	41,667	18,192	89,825	36,385
Other expenditures	(11,122)	-	3,047	-
	\$ 93,067	\$ 1,813,525	\$ 1,400,664	\$ 2,315,561

During the three months ended June 30, 2008, the Corporation reversed certain accrued expenses that were subsequently funded by Delta.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

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

The Corporation continues to capitalize general and administrative expenditures to Tunisian asset pools as part of the pre-development phase of operations as well as to capitalize stock based compensation costs. Corporate costs are capitalized to international asset pools in accordance with service agreements.

During May 2006, the Corporation and its joint venture partner entered into a farmout option agreement with Anadarko Petroleum Corporation (“Anadarko”). Anadarko acquired a 520 km² 3-D seismic survey for \$15.5 million but did not elect to proceed under the terms of the agreement by April 1, 2008 and, accordingly, forfeited all rights to conduct work or receive any interest in the farmout areas.

7. NON-CONTROLLING INTEREST

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Balance, beginning of period	\$ 11,744,281	\$ 4,376,706	\$ 11,981,554	\$ 3,946,704
Cash calls in CLP	-	7,363,644	-	7,793,646
Non-controlling interest in results of subsidiaries	290,878	-	53,605	-
Non-controlling interest share of other comprehensive income	108,341	-	108,341	-
Effect of deconsolidation of Escal	(92,783)	-	(92,783)	-
Balance, end of period	\$ 12,050,717	\$ 11,740,350	\$ 12,050,717	\$ 11,740,350

8. RELATED PARTY TRANSACTIONS

- a) Eurogas held a \$6,000,000 revolving term credit facility with Dundee Corporation (“Dundee”), the Corporation’s principal shareholder. The entire \$6,000,000 was available for drawdown on December 31, 2007 and during the three months ended March 31, 2008 the Corporation had drawn down \$1,500,000. During the three months ended June 30, 2008 the amounts drawn were repaid and the credit facility was cancelled. The credit facility bore interest at the rate of prime (based on Canadian chartered bank rates) plus 2 percent per annum. Interest was payable monthly, in arrears. The credit facility was secured by a general security agreement over the assets of the Corporation.

Interest expense on amounts drawn on the facility and standby fees related to the credit facility totalled \$19,714 (2007 - \$14,959) and \$52,418 (2007 - \$29,753) during the three and six months ended June 30, 2008, respectively.

- b) Dundee had previously provided a commitment letter to the Corporation and Escal in order to satisfy the Spanish authorities of Escal’s financial ability to undertake the project. Dundee had committed to either arranging for or providing financing for the project of €45 million (\$72 million) until the projected completion of project financing and for the additional estimated equity requirement of €25 million (\$40 million), if then required, subject to various conditions, including the grant of the Development Concession and other permits. As the Development Concession was granted on May 16, 2008, Dundee’s obligation pursuant to the commitment letter has been cancelled.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

8. RELATED PARTY TRANSACTIONS (cont'd)

- c) Other related party transactions and balances not otherwise described or eliminated in these consolidated financial statements include \$47,495 (2007 – nil) and \$81,486 (2007 – nil) of administrative services provided by Dundee to the Corporation in the three and six months ended June 30, 2008, respectively. Accounts receivable and accounts payable include \$87,732 (December 31, 2007 - \$81,255) and \$520,581(December 31, 2007 - \$634,409) respectively, which are due from or due to Dundee.

9. SHARE CAPITAL

- a) Issued and outstanding:

	Number of Shares	Amount
Common shares, December 31, 2007	124,574,763	\$ 67,898,790
Rights offering (i)	31,143,690	29,781,716
Common shares, June 30, 2008	155,718,453	\$ 97,680,506

⁽ⁱ⁾ On April 24, 2008, Eurogas completed a Rights Offering pursuant to which it issued 31,143,690 common shares at a subscription price of \$0.97 per share or \$30,209,379. Costs relating to the offering were \$590,697 (\$427,663 net of tax).

- b) Contributed surplus:

A summary of the changes in the Corporation's contributed surplus is as follows:

Balance, December 31, 2007	\$ 4,117,269
Share options vested (i)	331,495
Deferred share units vested (ii)	212,800
Balance, June 30, 2008	\$ 4,661,564

⁽ⁱ⁾ Stock based compensation expense of \$271,693 (2007 - \$569,634) and \$311,351 (2007 - \$749,101) was recognized in association with share options during the three and six months ended June 30, 2008, respectively. In addition, a total of \$74,917 (2007 – \$379,134) and \$20,144 (2007 - \$477,767) was capitalized to international asset pools during the three and six months ended June 30, 2008, respectively. During the second quarter of 2008, the Corporation reinstated 450,000 share options which had been incorrectly cancelled during the first quarter of 2008.

⁽ⁱⁱ⁾ Stock based compensation expense of \$212,800 (2007 - \$98,700) related to deferred share units was recognized during the three months ended June 30, 2008.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

9. SHARE CAPITAL (cont'd)

c) Stock based compensation:

i. Share Option Plan

Details of the Corporation's share option plan are disclosed in Note 13 to the 2007 Audited Consolidated Financial Statements. A summary of the status of the share option plan as at June 30, 2008, is as follows:

	Share Options	Weighted Average Exercise Price
Balance, beginning of period	6,005,000	\$ 1.27
Forfeited	(1,000,000)	1.47
Balance, end of period	5,005,000	\$ 1.23

As at June 30, 2008, options to purchase common shares were exercisable as follows:

Option Price	Options Outstanding	Options Exercisable	Remaining Contractual Life (Years)
\$ 0.32	400,000	400,000	1.1
\$ 1.12	2,650,000	1,766,667	3.9
\$ 1.19	25,000	25,000	1.9
\$ 1.26	450,000	450,000	1.8
\$ 1.50	200,000	200,000	1.7
\$ 1.65	680,000	673,333	2.9
\$ 1.76	600,000	600,000	1.7
	5,005,000	4,115,000	

ii. Deferred Share Unit Plan

Details of the Corporation's deferred share unit plan ("DSUP") are disclosed in Note 13 to the 2007 Audited Consolidated Financial Statements. During the three and six months ended June 30, 2008, 140,000 deferred share units were granted and as at June 30, 2008, 3,685,000 common shares remain available for grant under the DSUP.

d) Net loss per share:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net loss attributable to shareholders	\$ (1,703,651)	\$ (1,209,434)	\$ (1,602,731)	\$ (1,564,501)
Weighted average number of common shares outstanding	147,504,733	123,899,489	136,039,748	123,633,437
Basic and diluted net loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Accounts receivable	\$ (28,505)	\$ 167,036	\$ 108,238	\$ 158,345
Prepays and other	441,061	122,884	(357,192)	(248,996)
Joint venture receivable	-	437,984	-	410,122
Notes receivable - accrued interest	(111,528)	(13,801)	(235,480)	(27,449)
Accounts payable, accrued liabilities, advance from ACS and taxes payable	(569,801)	456,313	(2,724,788)	1,870,717
Change in non-cash working capital	(268,773)	1,170,416	(3,209,222)	2,162,739
Related to:				
Financing activities	(111,528)	(13,801)	(235,480)	(27,449)
Investing activities	(140,660)	408,578	(1,286,790)	1,799,290
Operating activities	\$ (16,585)	\$ 775,639	\$ (1,686,952)	\$ 390,898

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Interest expense	\$ 24,810	\$ 14,959	\$ 57,514	\$ 29,753
Income taxes	\$ -	\$ 66,377	\$ -	\$ 66,377

During the three and six months ended June 30, 2008, the advance from ACS of \$5,124,936 was applied to the proceeds from the shares issued by Escal. These amounts have been excluded from the cash flow.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

12. COMMITMENTS AND CONTINGENCIES

Amounts which will be received by the Corporation under the terms of the ACS Transaction (Notes 2 and 5) are subject to adjustment based on regulatory acceptance of the underlying project expenditure. The Corporation does not believe that any adjustment would be material to the financial position and results of operations of the Corporation, however, any adjustment would be charged to net income in the period such adjustment is made.

EUROGAS CORPORATION

Notes to the Consolidated Financial Statements

As at and for the three and six months ended June 30, 2008

(Unaudited)

13. SUBSEQUENT EVENTS

On July 10, 2008, the Corporation announced it would complete a restructuring plan that would allow for 100% of the common shares of EII to be distributed as a dividend-in-kind to all shareholders on a pro rata basis of one EII common share for each five Eurogas common shares held. EII holds the Corporation's interest in the 1.0 million acre Sfax permit. On August 5, 2008, the Corporation completed the distribution of 31,143,635 shares of EII. The EII shares are being held in escrow pending a public listing of EII shares which is currently underway.

As part of the restructuring, the Corporation exchanged its previous interest in common shares in EII for newly issued preferred shares of EII. The preferred shares have a \$22.15 million redemption value and can be redeemed at the option of the Corporation or EII, and pay an annual cumulative dividend of 4%.

CORPORATE INFORMATION

DIRECTORS

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

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

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

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

Jay Poscente ⁽¹⁾
Calgary, Canada

R. James Kirker
Calgary, Canada

Jonathan Goodman
Toronto, Canada

(1) Audit Committee

(2) Compensation Committee

OFFICERS

M. Jaffar Khan
President &
Chief Executive Officer

Bruce W. Sherley
Executive Vice President
& Chief Operating Officer

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

Jim Batchelor
Vice President, Exploration

Donald R. Leitch
Corporate Secretary

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Dundee Corporation
Scotiabank

RESERVES ENGINEERS

DeGolyer and MacNaughton
Canada Limited

LEGAL COUNSEL

Carscallen Leitch LLP

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services LLC

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President

Recaredo del Potro