

EUROGAS INTERNATIONAL INC.

2008 Annual Report

EUROGAS INTERNATIONAL INC.

Report from the Chief Executive Officer

Dear Fellow Shareholders:

On May 22, 2009 Eurogas International Inc. (“EI”) announced that, together with its Joint Venture partner, Atlas Worldwide Ltd. (“APEX”), it has 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 Exploration Permit and the Ras El Besh Concession in Tunisia. Prior to exiting the Joint Venture, Delta had expended approximately US \$110 million on the project.

Under the Agreement, Delta will reassign its 50% participating interest in the Sfax Exploration Permit and the Ras El Besh Concession and transfer its shares in Innovative Productions Services Limited (“IPS”) to the remaining Joint Venture partners, including EI. In exchange, Delta will be entitled to a portion of certain payments, 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.

The reassignment of Delta’s participating interest is subject to the approval of the Tunisian regulatory authorities. On completion of such reassignment, EI’s participating interest in the Sfax Exploration Permit, Ras El Besh Concession and IPS will be 45% and APEX’s participating interest will be 55%.

The Joint Venture, not including Delta, is continuing with its re-evaluation work on the Sfax Permit, including reprocessing seismic data covering the El Garia and Reneiche formations in the Ras El Besh Concession area and those prospects to the north. Upon completion of the seismic reprocessing the Joint Venture partners intend to consider a revised work program.

Sincerely,



Jaffar Khan
President and Chief Executive Officer
May 2009

**Eurogas International Inc.
Update for Shareholders
May 2009**

On August 5, 2008, Eurogas International Inc (EI) was launched as an independent company through the distribution of all of its common stock to the shareholders of Eurogas Corporation. Eurogas International conducts oil and natural gas exploration activities in the Gulf of Gabes offshore Tunisia within the Sfax Exploration Permit and owns oil production equipment through Innovative Production Services, Ltd. (IPS). Each shareholder of Eurogas Corporation received one newly issued common share of EI for every five shares of the Eurogas Corporation shares held. EI was funded with \$10 million in treasury. On March 31, 2009, EI began trading on the Canadian National Stock Exchange (CNSX) under the symbol “EI”.

Sfax Offshore Exploration Permit

The 1.0-million-acre Sfax Offshore Exploration Permit is located within a hydrocarbon fairway that trends from offshore Libya, through the Gulf of Gabes, to onshore Tunisia and includes several major oil and gas fields. The Sfax permit is bordered by producing oil and natural gas fields to the west, north and east, including the 330-million-barrel Ashtart oil field adjacent to the southeast boundary. Over the past 40 years, previous operators drilled and flow-tested oil from three separate structures on the Sfax permit at daily equivalent rates of 600, 1,200 and 1,800 barrels of oil per day. At that time, the operators considered these structures sub-economic and the wells were abandoned.

In July 2003, the Tunisian government awarded the Sfax Offshore Prospecting Licence to EI and Atlas Petroleum Exploration Worldwide Ltd. (“APEX”). The licence was converted to an Exploration Permit in June 2005 with a commitment to undertake seismic work and to drill one exploration well prior to December 9, 2009. The REB3 well drilled in 2008 satisfied the drilling commitment for the permit. Subsequently, partners requested and were granted a two-year extension to the permit’s primary term to December 8, 2011. Formal gazetting of the extension is expected to occur in the near future. The extension requires that one new exploration well be drilled prior to the permit’s expiry.

Ras El Besh Prospect

The Ras El Besh prospect is a 16,802-acre area carved out of the Sfax Permit. The partners applied for and were granted a 30-year Development Concession over the prospect in July 2008, with a condition that development begin within two years. The REB3 well signified commencement of development.

Drilling of REB3 began on June 16, 2008 and reached total depth of 2,204 metres. The primary target El Garia formation was 80 metres thick and showed oil; however, the reservoir was tight and no tests were conducted. The secondary target Reineche formation provided positive results. Well logs and formation pressure tests identified the presence of oil in a high-quality, 10-metre thick carbonate interval, which was subsequently confirmed by down-hole sampling.

The well was plugged back and a second wellbore (REB3H-ST1) was side-tracked to penetrate the formation over 1,000 meters away to determine the size and productivity of the reservoir. The new wellbore drilled through a fault that lowered the top of the targeted formation by 15 metres from the mapped depth, and drilling continued through approximately 400 meters of porous limestones in the Reineche formation. The open-hole section flowtested at a rate of 1,000 barrels per day of total fluid with a 10 percent oil cut. Partners are encouraged with the tests of oil from two locations 1,000 metres apart, but further drilling will be delayed until the sub-surface is re-mapped to incorporate the new REB3 well data and reprocessed seismic.

Partners requested and received approval from the Tunisian government on October 23, 2008 to temporarily suspend REB3 subject to abandoning or re-entering the well within 6 months. In April 2009, the operator submitted a request to the Tunisian authorities to delay the abandonment decision so partners have sufficient time to re-map the Reineche structure, after which a decision will be made to re-enter or abandon REB3. In the event of abandonment, the cost is estimated to be US\$6.5 million.

Salloum Prospect

The Corporation is evaluating the Salloum oil prospect as a future drilling candidate on the Sfax permit. A previous operator drilled an exploration well (SAM1) located 1.5 kilometers off the east coast of Tunisia in 1991 and tested 1,800 barrels per day of 42° API oil from Bireno limestones.

This structure is located in the northwest corner of the Sfax permit in shallow waters adjacent to the city of Sfax and is within 10 kilometers of two oil fields that have produced over 25 million barrels of oil from the same Bireno limestones. In 2007, EI and APEX acquired and processed 60 square kilometers of shallow-water 3D seismic over this prospect. Preliminary mapping suggests the Salloum structure extends toward the shoreline and could be drilled from an onshore location, which should result in significant cost savings compared to drilling an offshore well.

Jawhara Prospect

The Jawhara oil prospect, located offshore approximately 30 kilometers south of Ras El Besh, was drilled in 1973 by Total S.A. (the JAW1 well), testing oil to surface at an equivalent rate of 1,200 barrels of oil per day from Cretaceous Douleb-Bireno limestones. The Jawhara complex is a series of southwest to northeast fault blocks that are the first structures out of the basin to the east. JAW1 tested oil from the southernmost fault block and additional drilling is required to confirm the northern extent of the trend.

The 2009 program to re-map the Ras El Besh structure will extend southward to cover lands over the Jawhara prospect. Revised geological mapping will determine whether the Jawhara structure holds sufficient hydrocarbon volumes to warrant an appraisal well.

Other Prospects

Additional hydrocarbon leads have been identified in the southeast and northwest portions of the large, 1-million-acre Sfax permit. The 330-million barrel Ashtart oil field lies near Sfax's southeast boundary and several similar structures in the Sfax permit remain undrilled. In addition, several potentially 5-50-million-barrel structures have been identified in the northwest portion of the permit after partners mapped the 948 square kilometers of 3D seismic acquired since 2004.

Work Program for the Sfax Exploration Permit and the Ras El Besh Concession

The 2009 exploration program is budgeted at a total cost of US\$ 6.4 million (net US\$ 2.0 million) directed primarily towards geological and geophysical studies to identify drillable structures in the Reineche and El Garia formations. The studies will incorporate the results of Ras El Besh 3 wellbores and evaluate the hydrocarbon potential in the vicinity of the Ras El Besh and Jawhara structures and in the shallow waters south of the Kerkennah Islands that are sparsely evaluated due to the high cost of acquiring transition-zone seismic.

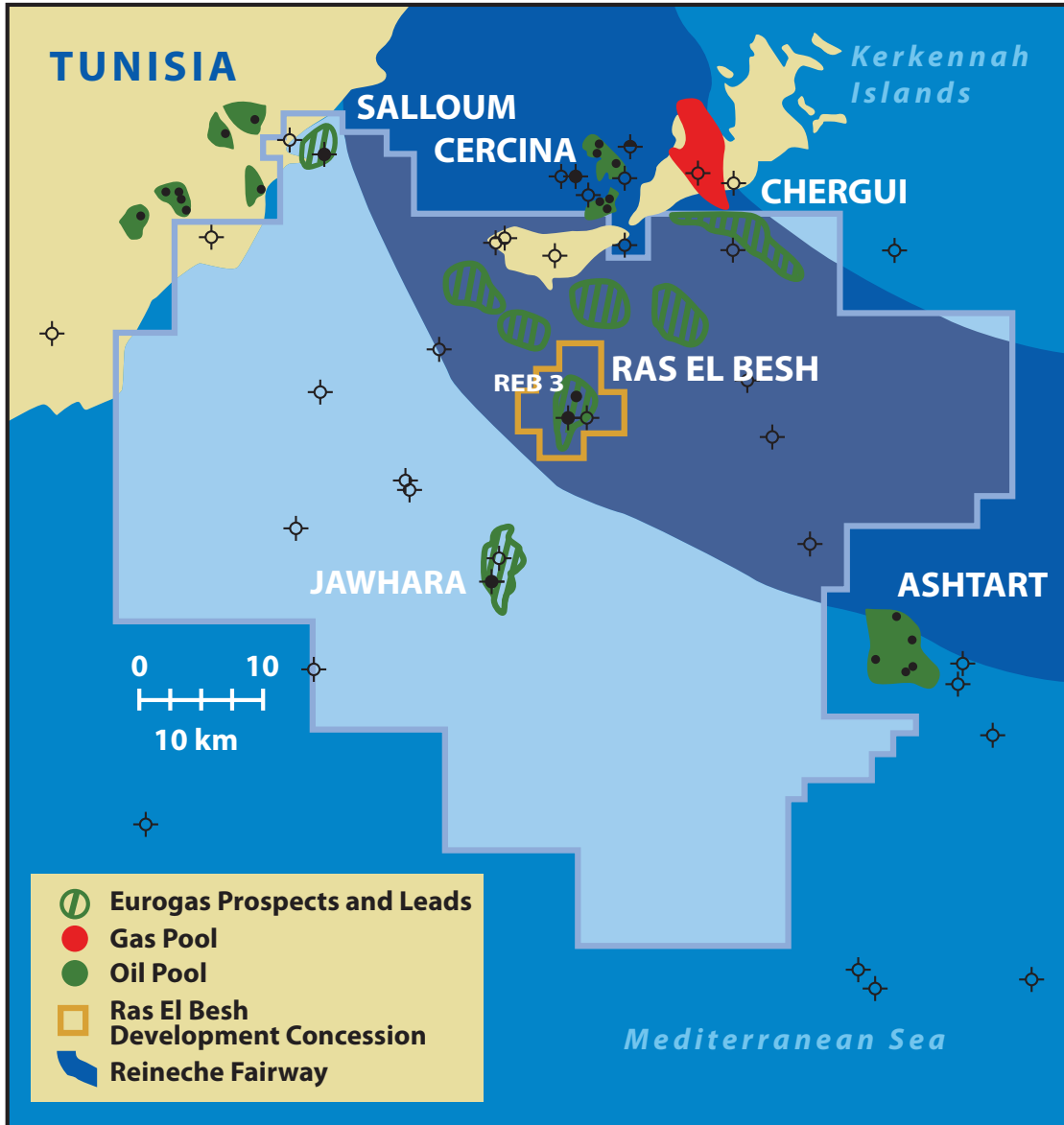
The Reineche formation produces oil and natural gas from two fields north of the Sfax permit boundary only 25 kilometers from REB3. The Cercina oil pool has produced over 12 million barrels of oil to date and is currently producing at 2,500 barrels per day. The Chergui natural gas field came onstream in 2008 and produces up to 50 million cubic feet per day with published reserves of 88 billion cubic feet.

Future Exploration and Evaluation

The REB3 well has provided Eurogas International Inc. with important results. Oil has been discovered in the Reineche formation, resulting in greater focus on that formation in the northern portion of the permit. It is clear, however, that further evaluation and analysis needs to be performed before new wells are drilled.

The proposed new seismic mentioned above will target hydrocarbon leads in the Reineche formation in an area located north of the REB3 well and south of the Kerkennah Islands. The 2009 budget also provides for a possible acquisition of onshore land from which a less expensive Salloum appraisal well could be drilled if a decision is made to proceed. The work program and budget may be adjusted based on results of the technical analysis currently underway and the ultimate timing will depend upon the availability of contractors and crews.

In May 2007, EI, through IPS, purchased a Mobile Offshore Platform Unit, a jack-up vessel envisioned as a potential production vessel for EI's Tunisian operations. The 2009 budget of US\$6 million (net US\$ 1.4 million) will be used to finalize repairs and modifications to the unit. If the vessel is not required for production operations in Tunisia in the near future, the partners will either sell it or lease the vessel to a third party.



Note:

As of the date hereof, the property covered by the Sfax Permit does not have reserves assigned to it within the definitions contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 of the Canadian Securities Administrators.

Executive Office

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Stock Listing

Canadian National Stock Exchange

Symbol

EI

Shareholders' Annual Meeting

June 15, 2009 at 10:00 a.m. (ET)
c/o Dundee Corporation
Dundee Place
1 Adelaide Street East, Suite 2800
Toronto, Ontario M5C 2V9

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