EUROGAS INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and gas company, incorporated under the *Companies Act* (Barbados), and is engaged in exploration and evaluation on its extensive landholdings offshore Tunisia, targeting large scale oil and natural gas reserves. The Corporation holds a 45% working interest, and is the non-operating partner, in the Sfax offshore exploration permit (the "Sfax Permit") covering 908,425 acres located in the shallow Mediterranean waters in the Gulf of Gabes, offshore Tunisia and southeast of the city of Sfax. The Corporation's common shares are traded on the Canadian National Stock Exchange ("CNSX") under the symbol EI.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of July 21, 2011 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's audited financial statements as at and for the year ended December 31, 2010 (the "2010 Audited Financial Statements") prepared under Canadian generally accepted accounting principles ("Canadian GAAP") and the unaudited interim financial statements of the Corporation as at and for the three and six months ended June 30, 2011 (the "June 2011 Interim Financial Statements") prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise specified. The financial data discussed in this MD&A, including financial data relating to comparative periods in the prior year, has been prepared in accordance with IFRS, 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 this MD&A 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.

GOING CONCERN ASSUMPTIONS

The Corporation's ability to continue its exploration and evaluation activities and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover its operating costs. The 2010 Audited Financial Statements and the June 2011 Interim Financial Statements do not give effect to any adjustments which would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business. The amounts the Corporation may realize on the disposition of its assets or the discharging of its liabilities other than in the normal course of its business may be significantly different than the carrying value of these amounts as reflected in the 2010 Audited Financial Statements and the June 2011 Interim Financial Statements.

IFRS ADOPTION

In 2010, the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards for the financial years beginning on or after January 1, 2011.

The Corporation's June 2011 Interim Financial Statements have been prepared in accordance with IFRS. The Corporation's 2010 Annual Financial Statements, and its interim financial statements as at and for the three and six months ended June 30, 2010 (combined, the "Canadian Financial Statements"), were prepared using Canadian GAAP. Included in Note 5 to the June 2011 Interim Financial Statements is a detailed description of the differences between Canadian GAAP and IFRS, as they apply to the Corporation, as well as a reconciliation of the Canadian Financial Statements to IFRS.

The Corporation conducted an assessment of internal controls and information technology systems to ensure compliance with IFRS, both from a transaction level accounting process as well as for the purpose of financial reporting disclosure requirements. Changes to existing procedures were minor and consisted primarily of establishing processes for the more granular tracking of exploration and evaluation activities that will better facilitate impairment testing, presentation and disclosure under IFRS.

The Corporation continues to assess IFRS financial disclosure requirements for purposes of its 2011 annual financial statements.

DECLARATION OF FORCE MAJEURE

On January 18, 2011, the Corporation announced that, together with its joint venture partner, Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), it had declared a condition of a Force Majeure with respect to the Sfax Permit and Ras-El-Besh concession located offshore Tunisia. The Corporation and APEX believe that the current political uncertainty and civil unrest in Tunisia adversely affects their ability to continue their exploration and evaluation activities. Eurogas International believes that the declaration of a Force Majeure will allow the Corporation and APEX to temporarily suspend their activities while the conditions resulting in the Force Majeure continue. Once the situation is resolved, the Corporation and APEX will resume their exploration and evaluation activities in Tunisia.

BUSINESS DEVELOPMENTS

Eurogas International is conducting exploration and evaluation programs for oil and natural gas in the shallow Mediterranean waters offshore Tunisia, where it holds a 45% working interest in the Sfax Permit. In 2003, the Corporation entered into a joint operating agreement with APEX, a production sharing agreement with the Tunisian state oil company and a prospecting permit with the Tunisian government. Pursuant to these arrangements, the Corporation and APEX agreed to undertake exploration, evaluation and extraction operations on the Sfax Permit. APEX is the operating partner in the joint venture arrangement.

The Offshore Sfax Exploration Permit

In 2005, the joint venture partners obtained an exploration permit under the terms of a production sharing contract, whereby the joint venture partners share the hydrocarbon production with the government agency, ETAP (Entreprise Tunisienne d'Activités Pétrolières). The original four year exploration permit commenced on December 9, 2005 and included a commitment to undertake seismic work and to drill one exploration well prior to December 9, 2009. The seismic work was completed and the drilling commitment was fulfilled by the drilling of the Ras-El-Besh structure (see *"Ras-El-Besh Concession"*). On January 19, 2009, the Tunisian government approved an extension to the Sfax Permit, extending the original term to December 8, 2011 and on June 30, 2011, a further one-year extension to December 8, 2012 was approved. As a condition of the extensions, the joint venture is committed to drill an additional exploration well to a required depth during the extension period.

On behalf of the joint venture, the Corporation has directed the reprocessing of four 3-D seismic surveys on the Sfax Permit. The 340 km^2 seismic program over the Ras-El-Besh and Jawhara oil prospects, which was acquired in 2004, was completed and mapping finalized. In 2007, and under a previous third-party farmout arrangement, the Corporation acquired a 460 km^2 3-D seismic program over the Kerkennah Banks, with all costs having been funded by the farmout party. The Corporation subsequently participated at its 45% working interest level in the acquisition of a 60 km^2 3-D seismic program over the Salloum structure. The Corporation completed the reprocessing of these additional two seismic programs and interpretations have commenced. The older Ashtart 3-D survey has been reprocessed. Selected 2-D seismic lines have also been reprocessed to support the mapping of prospects and leads on the Sfax Permit.

The Corporation and its joint venture partner, continue to use the reprocessed data to remap the prospects and leads in order to determine a future course of action with respect to the drilling of an exploration well to satisfy the outstanding drilling obligation, once the conditions resulting in the declaration of Force Majeure have been alleviated.

Ras-El-Besh Concession

In December 2005, the Corporation and APEX applied for a development concession over the Ras-El-Besh ("REB-3") prospect within the Sfax Permit. The REB-3 well within the development concession is recognized by the Tunisian government as the commitment well under the original term of the Sfax Permit, which ended on December 9, 2009 (see *"The Offshore Sfax Exploration Permit"*).

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. Agreement by the Tunisian government was subject to the reinterpretation and remapping of seismic data, after which the joint venture partners were to determine whether to either reenter or abandon the well. During the fourth quarter of 2010, the joint venture partners concluded that it was appropriate to abandon the REB-3 well and pursue other opportunities within the Sfax Permit. The Corporation is currently evaluating the cost and the methodology for the abandonment, the timing of which will be determined by prevailing industry and political conditions.

As part of the joint venture's settlement with Delta (see *"Agreement with Delta Hydrocarbons B.V."*), Delta has committed to fund 50% of costs associated with the abandonment of the REB-3 well, provided such abandonment is completed prior to December 9, 2011. In the event that the abandonment is not completed prior to December 9, 2011, Delta's obligation is extinguished and the Corporation will be required to fund 45% of the aggregate costs of abandonment.

Mobile Offshore Production Unit

The Corporation holds a 45% working interest in a mobile offshore production unit ("MOPU"), which was acquired with the expectation of producing, processing and transporting oil on certain development concessions on the Sfax Permit. The joint venture partners continue to seek alternative usage of the MOPU, including opportunities for monetization of the asset through a possible sale or lease arrangements.

Agreement with Delta Hydrocarbons B.V.

In 2009, the joint venture partners entered into a farmout arrangement with Delta Hydrocarbons B.V. ("Delta") pursuant to which Delta would earn a 50% interest in the joint venture, subject to a commitment to spend US$125 million.

In May 2009, Delta expressed a desire to exit this farmout arrangement and, under a settlement agreement, Delta reassigned its 50% participating interest to APEX and the Corporation. In exchange, Delta is entitled to a portion of certain payments, if and when received by the joint venture, including a share of the proceeds from the cost oil portion of any future production revenues from the Sfax Permit and a share of the proceeds from any sale or lease of the MOPU, to a maximum of US$20 million.

Delta's entitlement pursuant to the settlement agreement is conditional on Delta meeting its obligations as defined in the settlement agreement, including Delta's commitment to fund 50% of any costs associated with abandonment of the REB-3 well (see *"Ras-El-Besh Concession"*) until December 9, 2011, as well as to fund its pro-rata share of ongoing costs associated with the litigation with Seawolf (see below).

The Seawolf Litigation

In 2009, APEX, on behalf of the joint venture partners, 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, seeking damages for misrepresentations and breach of contract in respect of the drilling of the REB-3 well on the Ras-El-Besh concession. In May 2010, the parties reached a settlement agreement that provides for a US$12 million payment to the joint venture over an 18 month period. The settlement amount is secured by a letter of guarantee issued by a recognized international bank.

During the three and six months ended June 30, 2011, the Corporation received cash of $0.4 million (US$0.5 million) and $0.9 million (US$0.9 million) respectively, as its share of the settlement proceeds. At June 30, 2011, the Corporation's share of additional amounts receivable pursuant to the settlement is US$600,000.

2011 Expenditures

	Sfax Exploration Permit	Ras-El-Besh Concession	Exploration and Evaluation Properties
Carrying value, January 1, 2010	$ 2,638,922	$ -	$ 2,638,922
Transactions during the six months ended June 30, 2010			
Investments	899,262	370,509	1,269,771
Changes related to decommissioning liability	-	18,387	18,387
Impairment	-	(388,896)	(388,896)
Carrying value, June 30, 2010	3,538,184	-	3,538,184
Transactions from July 1, 2010 to December 31, 2010			
Investments	1,126,817	124,484	1,251,301
Changes related to decommissioning liability	-	(98,088)	(98,088)
Impairment	-	(26,396)	(26,396)
Carrying value, December 31, 2010	4,665,001	-	4,665,001
Transactions during the six months ended June 30, 2011			
Investments	692,989	150,922	843,911
Changes related to decommissioning liability	-	(43,833)	(43,833)
Impairment	-	(107,089)	(107,089)
Carrying value, June 30, 2011	$ 5,357,990	$ -	$ 5,357,990

The Corporation's proportionate share of costs associated with the Sfax Permit is capitalized as part of its exploration and evaluation activities. During the three and six months ended June 30, 2011, $0.4 million and $0.7 million respectively (three and six months ended June 30, 2010 - $0.5 million and $0.9 million respectively) was capitalized to the Sfax exploration and evaluation properties.

Work Program for 2011

The Corporation has temporarily suspended its 2011 work program pending settlement of the events that resulted in the declaration of Force Majeure. Once activities resume, the Corporation's ability to undertake its future work programs is dependent on it securing the necessary financial arrangements. At June 30, 2011, the Corporation had cash and short term investments of $0.7 million compared with cash and short term investments of $1.1 million at

December 31, 2010. The Corporation's current cash resources are insufficient to meet its drilling commitment on the Sfax Permit to be completed before the expiry date of the Sfax Permit on December 8, 2012. The Corporation is actively pursuing alternative financing options, including farmout arrangements, debt or equity issuances, and monetization of certain assets. There can be no assurance that the Corporation will be successful in these initiatives.

RESULTS OF OPERATIONS

The Corporation's current energy project is in the exploration stage and therefore, the Corporation does not generate operating revenues.

For the six months ended June 30, 2011 compared with the six months ended June 30, 2010

During the first half of 2011, the Corporation incurred a net loss of $1.2 million, or a loss of approximately $0.04 per share. This compares with a net loss of $2.0 million or a loss of $0.06 per share in the same period of 2010.

Expenses in the six months ended June 30, 2011 include $0.6 million (six months ended June 30, 2010 - $0.6 million) of dividends associated with the Corporation's Series A Preference Shares outstanding.

General and administrative expenses incurred during the first six months of 2011 were $0.4 million, a decrease of $0.6 million over general and administrative expenses of $1.0 million in the same period of 2010. The decrease is primarily a result of a decline in legal costs following settlement of the litigation with Seawolf (see *"The Seawolf Litigation"*).

During the six months ended June 30, 2011, the Company recognized an impairment of $0.1 million (six months ended June 30, 2010 - $0.4 million) against exploration and evaluation costs associated with the Ras-El-Besh development concession (see *"Ras-El-Besh Concession"*).

Interest expense was $13,706 in the first six months of 2011 compared with $12,993 incurred during the first six months of the prior year. Interest expense includes accretion of $11,903 (six months ended June 30, 2010 - $11,130) associated with the Corporation's decommissioning liability.

As a result of the Canadian dollar strengthening against the US dollar, the Corporation incurred a foreign exchange transaction loss of $70,960 in the first half of 2011 (six months ended June 30, 2010 – gain of $993).

For the three months ended June 30, 2011 compared with the three months ended June 30, 2010

The Corporation incurred a net loss during the three months ended June 30, 2011 of $0.5 million, or a loss of $0.02 per share. This compares with a net loss of $0.9 million, or a loss of $0.03 per share during the three months ended June 30, 2010.

General and administrative expenses decreased from $0.4 million in the second quarter of 2010 to $0.1 million in the second quarter of 2011. Consistent with year-to-date financial results, the $0.3 million decrease is primarily a result of a decline in legal costs associated with the Seawolf Litigation.

Interest expense for the three months ended June 30, 2011 includes accretion of $5,895 (three months ended June 30, 2010 - $5,883). Furthermore, the Corporation incurred a foreign exchange loss of $16,690 during the second quarter of the current year compared with a gain of $9,120 earned in the second quarter of the prior year.

SUMMARY OF QUARTERLY RESULTS

	Prepared in accordance with IFRS						Prepared in accordance with Canadian GAAP	
	2011		2010				2009	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Interest and other	$ -	$ 21	$ 520	$ 1,103	$ 1,457	$ 2,944	$ 4,273	$ 22,805
Net (loss) earnings	(526,538)	(676,779)	2,603,141	(588,913)	(877,214)	(1,137,190)	(1,215,629)	(1,062,975)
Capital expenditures, net*	494,497	443,430	836,469	509,547	806,629	1,225,008	267,381	955,258

** Capital expenditures under IFRS are stated before adjustments for impairment.*

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At June 30, 2011, the Corporation had cash and cash equivalents of $0.7 million compared with $1.1 million at December 31, 2010. The Corporation's current cash resources are insufficient to meet its planned 2011 work program. The Corporation is actively assessing alternative financing options, including farmout arrangements, possible debt or equity issuances and monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these alternatives.

Series A Preference Shares

The Corporation has issued 32,150,000 Series A Preference Shares with a face value of $32.15 million. The Series A Preference Shares issued by the Corporation rank in priority to the common shares of the Corporation as to the payment of dividends and the distribution of assets on dissolution, liquidation or winding-up of the Corporation and entitle the holder thereof 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 the Corporation or the holder, at any time, at a price equal to their face value of $32.15 million. The holder of the Series A Preference Shares has indicated to the Corporation that it does not intend to exercise its redemption entitlement until December 2011.

In August 2009, the holder of the Series A Preference Shares approved a request by the Corporation to defer entitlement to payment of the cumulative 4% cash dividends payable on the Series A Preference Shares and entitlement to receive payment once such dividends are declared, until December 31, 2011. The holder of the Series A Preference Shares may, if requested by the Corporation, reinvest any such dividends received in cash into common shares of the Corporation, subject to regulatory approval.

Common Shares

As at July 21, 2011 there are 31,143,635 common shares outstanding.

COMMITMENTS

As part of the Tunisian government's approval of the extension on the Sfax Permit to December 8, 2012, the Corporation is committed to its pro rata share of drilling one new exploration well to a specified geological zone during the extension period. The actual cost for the exploration well will depend on the selection of the prospect and location within the Sfax Permit. In the event that work commitments as outlined in the terms of the extension are not completed, a compensatory payment of up to US$12 million will be payable to the Tunisian regulatory bodies, less any amounts incurred in respect of the completion of these obligations. The Corporation is also required to complete its pro rata share of the abandonment of the REB-3 well. The cost of abandoning the REB-3 well is dependent on the type of rig that will be used and on the costs of mobilizing and demobilizing the rig. The Corporation estimates that its pro rata share of the cost to meet these two commitments is US$7.6 million, assuming that Delta fulfills its commitment to fund its share of costs associated with the abandonment of the REB-3 well prior to December 8, 2011.

RELATED PARTY TRANSACTIONS

Other than as described in Note 15 to the June 2011 Interim Financial Statements, there have been no significant changes in the nature and scope of related party transactions to those described in Note 10 to the 2010 Audited Financial Statements and the accompanying MD&A.

BUSINESS RISKS

The Corporation is currently in the exploratory and evaluation stage in Tunisia and therefore, it capitalizes certain costs. The recovery of capitalized costs is contingent on the existence of economically recoverable reserves and future profitable production. The business and operations of the Corporation may require substantial additional capital in order to execute any further exploration and evaluation work.

There are a number of other inherent risks associated with the Corporation's activities and with its current stage of exploration. These risks were detailed in the section entitled "Business Risks" in the Corporation's MD&A accompanying its 2010 Audited Financial Statements. The Corporation has not identified any material changes to the risk factors affecting its business and its approach to managing those risks from those discussed in the document referred to above.

ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based upon the financial statements of the Corporation. These statements have been prepared in accordance with IFRS. The preparation of these financial statements requires that the Corporation make assumptions, estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on historical experience and on various other assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgements about the carrying value of assets and liabilities and the reported amount of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no significant changes to the areas of accounting judgments, estimates and assumptions made by the Corporation from those detailed in Note 4 to the unaudited interim financial statements of the Corporation as at and for the three months ended March 31, 2011.

CONTROLS AND PROCEDURES

In connection with exemption orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer and the Chief Financial Officer of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the June 2011 Interim Financial Statements and in the accompanying management's discussion and analysis.

In contrast to the certificate that would be issued in accordance with the Canadian Securities Administrators' National Instrument 52-109, the Venture Issuer Basic Certification includes a "Note to Reader" stating that the Chief Executive Officer and Chief Financial Officer do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109.

Notwithstanding the filing of a Venture Issuer Basic Certificate, the Corporation makes significant efforts to maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, the Chief Executive Officer and Chief Financial Officer have designed controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in compliance with IFRS.

It should be noted that while the Corporation's Chief Executive Officer and the Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, there are inherent limitations in all internal control systems and no disclosure controls and procedures or internal control over financial reporting will provide complete assurance that no future errors or fraud will occur. 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*.