EUROGAS INTERNATIONAL INC.

2012 THIRD QUARTER REPORT

EUROGAS INTERNATIONAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Eurogas International Inc. ("Eurogas International" or the "Corporation") is an independent oil and natural 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 October 15, 2012 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, 2011 (the "2011 Audited Financial Statements") and the unaudited interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2012 (the "September 2012 Interim Financial Statements") prepared under International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars 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 risks of not being able to obtain or renew permits and licenses, the inability to access sufficient capital from internal and external sources, risks associated with foreign operations, the impact of general economic conditions, currency fluctuations, exploration and development risks, reliance on key personnel and management, risks relating to the abandonment of operations, environmental risks, competition from other industry participants, 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 obtaining the necessary renewals of its permits and licenses, obtaining additional financing, the continued support of its shareholders, the discovery of economically recoverable reserves, obtaining exploitation concessions for identified reserves, and generating revenues sufficient to cover its operating costs. The 2011 Audited Financial Statements and the September 2012 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 assets and liabilities as reflected in the 2011 Audited Financial Statements and the September 2012 Interim Financial Statements.

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 Atlas Petroleum Exploration Worldwide Ltd. ("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.

Declaration of Force Majeure

As a result of political uncertainty and civil unrest in Tunisia, on January 18, 2011, the Corporation announced that, together with its joint venture partner, APEX, it had declared a condition of Force Majeure with respect to the Sfax Permit and the Ras El Besh development concession. The Corporation believes that the declaration of Force Majeure allowed the Corporation and APEX to suspend their activities, while the conditions resulting in the Force Majeure continued.

The Offshore Sfax Exploration Permit

The Sfax Permit is located within a prolific hydrocarbon fairway extending from offshore Libya, through the Gulf of Gabes, to onshore Tunisia. It is surrounded by producing oil and natural gas fields to the west, north and east, including the producing Ashtart oil field that lies along the southeast boundary. In 2005, the joint venture partners obtained an exploration permit under the terms of a production sharing contract, the terms of which provide that the joint venture partners share any future 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 an exploration well prior to December 9, 2009. The seismic work was completed and the drilling commitment was fulfilled by the drilling of the REB-3 well on the Ras El Besh prospect. On January 19, 2009, the Tunisian government approved an extension to the Sfax Permit, extending the original term to December 8, 2011. As a condition of the extension, the joint venture partners committed to drill an exploration well to a required depth during the extension period. On June 23, 2011, the Tunisian government further extended the period of the Sfax Permit to December 8, 2012, with no additional commitment.

The Corporation, on behalf of the joint venture partners, has completed the reprocessing of approximately 1,280 km^2 of 3-D seismic surveys and select 2-D seismic lines over the Sfax Permit. The reprocessed seismic data was subsequently combined in order to allow a balanced interpretation over the entire Sfax Permit. The joint venture partners have identified three separate potential drilling locations which they consider prospective for containing oil reserves, each of which would, if drilled, meet the joint venture's current drilling commitment pursuant to the Sfax Permit.

In anticipation of commencing its drilling program, during the third quarter of 2012, APEX began a procurement process to identify a suitable offshore drilling rig. In September 2012, APEX determined that it would not be able to secure the appropriate drilling rig in sufficient time to meet the joint venture's current drilling commitment and, as a result, the joint venture partners filed an application with the Tunisian Director General of Energy for a renewal of the Sfax Permit for an additional three-year period. In addition, the joint venture partners requested an extension of the drilling commitment period to coincide with the renewal period. As of the date hereof, there can be no certainty that the Tunisian authorities will grant the three-year renewal to the Sfax Permit, or concede on the deferral of the drilling commitment. In any event, the drilling of an exploration well will only be undertaken if the conditions which resulted in the declaration of Force Majeure in January 2011, are alleviated.

During the third quarter of 2012, the Corporation received a commitment from its parent, Dundee Corporation, to provide the necessary financial resources to the Corporation to enable it to complete its drilling obligation pursuant to the Sfax Permit, subject to certain conditions, including obtaining the consent of the Tunisian authorities as to an extension of the term of the Sfax Permit.

The joint venture partners continue with detailed interpretation and mapping over the Kerkennah Banks, where four prospective leads have been identified. Additionally, the joint venture has commenced geological and geophysical analysis of the region immediately south of the Kerkannah Islands, adjacent to the Cercina and Chergui oil and gas fields.

2012 Expenditures

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2010	$	4,665,001
Transactions during the nine months ended September 30, 2011		
Investment		975,423
Carrying value, September 30, 2011		5,640,424
Transactions from October 1, 2011 to December 31, 2011		
Investment		235,499
Carrying value, December 31, 2011		5,875,923
Transactions during the nine months ended September 30, 2012		
Investment		1,122,667
Carrying value, September 30, 2012	$	6,998,590

During the three and nine months ended September 30, 2012, the Corporation invested $407,987 and $1,122,667 respectively (three and nine months ended September 30, 2011 - $282,434 and $975,423 respectively) in the Sfax Permit. These expenditures included certain geological and geophysical work deemed necessary to advance the prospects for the Sfax Permit.

Agreement with Delta Hydrocarbons B.V.

In prior years, the Corporation and APEX had entered into a farmout option agreement with Delta Hydrocarbons B.V. ("Delta"), pertaining to the farmout of a 50% working interest in the joint venture arrangements relating to the Sfax Permit and the Ras El Besh development concession. Delta subsequently expressed a desire to exit from the farmout option agreement and, under a settlement arrangement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the joint venture partners, to a maximum of US$20 million. Payments to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil portion of any future production revenues realized from the Sfax Permit and the Ras El Besh development concession and a share of the proceeds from any sale or lease of the MOPU (see *"Mobile Offshore Production Unit"*).

The Seawolf Litigation

In prior years, 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. In May 2010, the joint venture partners reached a settlement with Seawolf that provided for a US$12 million payment to the joint venture partners over an 18-month period ended October 2011. The Corporation's share of the settlement proceeds was US$3.6 million, including US$1.5 million received in 2011. At September 30, 2012, settlement proceeds receivable were US$31,083.

Ras El Besh Development Concession

In December 2005, the joint venture partners applied for a development concession over the Ras El Besh prospect within the Sfax Permit. The application was accepted by the Hydrocarbon Commission of the Tunisian government in July 2006. Following commencement of the drilling of the REB-3 well in June 2008, the development concession was gazetted on September 5, 2008. The REB-3 well is recognized by the Tunisian government as the commitment well under the initial term of the Sfax Permit.

During the fourth quarter of 2010, the joint venture partners determined that sufficient reserves had not been discovered to give commercial viability to the Ras El Besh prospect and therefore concluded that it was appropriate to abandon the REB-3 well and pursue other opportunities within the Sfax Permit. Final approval to proceed with abandonment and site restoration activities was obtained from the Tunisian authorities in December 2011, following which the Corporation and its joint venture partners finalized procurement contracts, secured the necessary operating equipment and commenced the abandonment process. These abandonment and site restoration activities were substantially completed in the first quarter of 2012 at a cost of US$930,696,

including US$550,534 that had been funded during the prior year in expectation of advancement of the project. At September 30, 2012, the Corporation estimated that it will incur an additional US$33,750 towards these activities.

Mobile Offshore Production Unit

The Corporation holds a 45% joint interest in Innovative Production Services Ltd. ("IPS"). IPS holds title to a mobile offshore production unit ("MOPU"), which was originally acquired with the expectation of producing, processing and transporting oil on certain development concessions within the Sfax Permit. The Corporation may consider alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

RESULTS OF OPERATIONS

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

Comparison of the nine months ended September 30, 2012 with the nine months ended September 30, 2011

During the nine months ended September 30, 2012, the Corporation incurred a net loss of $1.6 million, or a loss of approximately $0.05 per share. This compares with a net loss of $1.7 million or a loss of $0.05 per share in the same period of 2011.

The Corporation incurred exploration and evaluation expenditures of $139,387 during the nine months ended September 30, 2012 (nine months ended September 30, 2011 - $179,093). These expenditures are not deferred, as management's current view is that they are not likely to result in the discovery of commercially viable reserves.

As part of the completion of the abandonment and restoration of the REB-3 well site, the Corporation recognized additional estimated costs of $98,363 above its estimate at December 31, 2011. These amounts have been reported in the September 2012 Interim Financial Statements as a loss from changes in estimate of decommissioning liability (nine months ended September 30, 2011 – loss of $64,770).

General and administrative expenses incurred during the nine months ended September 30, 2012 were $316,114, a decrease of $175,459 from general and administrative expenses of $491,573 incurred in the same period of the prior year. The decrease includes approximately $85,000 of decreased geological and geophysical activities following the Corporation's declaration of Force Majeure. Legal costs decreased by approximately $66,000 on a period-over-period basis. In the nine months ended September 30 of the prior year, the Corporation incurred significant legal costs associated with its litigation with Seawolf.

During the nine months ended September 30, 2012, the Corporation incurred $962,743 of dividend expense associated with the Corporation's Series A Preference Shares outstanding (nine months ended September 30, 2011 - $961,857).

Interest expense was $49,946 in the nine months ended September 30, 2012 compared with $20,304 incurred during the same period of the prior year. Included in interest expense during the nine months ended September 30, 2012 was $48,272 associated with the Corporation's credit facility established with Dundee Corporation (see *"Liquidity and Capital Resources – Cash Resource Availability"*).

Comparison of the three months ended September 30, 2012 with the three months ended September 30, 2011

The Corporation incurred a net loss during the three months ended September 30, 2012 of $487,014, or a loss of $0.02 per share. This compares with a net loss of $509,060, or a loss of $0.02 per share during the three months ended September 30, 2011.

General and administrative expenses decreased from $117,705 in the third quarter of 2011 to $89,657 in the third quarter of 2012. Consistent with year-to-date financial results, the $28,048 decrease is primarily a result of a decline in corporate activities associated with the declaration of Force Majeure.

Interest expense for the three months ended September 30, 2012 increased by $17,714 to $24,312 and included $23,936 associated with the credit facility established with Dundee Corporation. Furthermore, the Corporation incurred a foreign

exchange gain of $3,360 during the third quarter of the current year compared with a gain of $76,159 incurred in the third quarter of the prior year. The Corporation's primary exposure to foreign exchange risk is related to amounts receivable in respect of the litigation with Seawolf. This exposure was largely reduced in 2012 as the Corporation has received substantially all settlement proceeds.

Summary of Quarterly Results

	2012			2011				2010
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Net (loss) earnings	$ (487,014)	$ (503,695)	$ (574,319)	$ (302,359)	$ (509,060)	$ (526,538)	$ (676,779)	$ 2,603,141
Capital expenditures	407,987	461,281	253,399	284,619	351,788	429,263	357,742	780,599

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At September 30, 2012, the Corporation had cash of $8,562 compared with $99,550 at December 31, 2011. Furthermore, the Corporation has received a commitment from Dundee Corporation to provide the necessary financial resources to the Corporation to enable it to complete its drilling obligation pursuant to the terms of the Sfax Permit, subject to certain conditions. The Corporation continues to consider other alternative financing options, including farmout arrangements, possible debt or equity issuances or the monetization of certain assets. There can be no assurance that the Corporation will be successful in any of these other alternatives.

On January 31, 2012, the Corporation established a $2.5 million revolving demand credit facility with Dundee Corporation to temporarily provide the necessary operating funds to complete abandonment and site restoration costs and meet certain ongoing general and administrative expenses. On October 15, 2012, the Corporation entered into an amended revolving demand credit facility, increasing the amounts available from $2.5 million to $5.0 million. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%, and are due on demand. Amounts previously classified as payable to Dundee Corporation were transferred to, and form part of, amounts owed by the Corporation pursuant to this credit facility. At September 30, 2012, the Corporation had drawn $2.6 million against this facility, including amounts advanced pursuant to the amended facility.

As lender to the Corporation, Dundee Corporation may, at its discretion, require the Corporation to convert all of the amounts outstanding pursuant to the credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares, defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of $0.05 per common share. Any issuance of common shares by the Corporation pursuant to these arrangements will require customary approvals, including regulatory approvals.

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 are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. 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 Dundee Energy to a fixed preferential cumulative dividend at the rate of 4% per annum. Dundee Energy may reinvest any such dividends received into common shares of the Corporation, subject to obtaining the necessary approvals. The Series A Preference Shares may be redeemed, at the option of either the Corporation or Dundee Energy, at any time, at a price equal to their face value of $32.15 million.

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to the redemption of the Series A Preference Shares and its entitlement to demand payment of the associated cumulative dividends outstanding. The terms of the Series A Preference Shares and, specifically, the right of retraction by Dundee Energy, expose the Corporation to significant liquidity risk.

The Series A Preference Shares are non-voting except in the event that the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but so long as any dividends on the Series A Preference Shares remain in arrears for more than eight quarters, Dundee Energy is entitled, voting exclusively and separately as a series, to elect a majority of the members of the Board of Directors of the Corporation. At September 30, 2012, cumulative dividends outstanding on the Series A Preference Shares were $5.3 million (December 31, 2011 - $4.4 million), representing outstanding dividends for more than eight quarters. However, at September 30, 2012, Dundee Energy had not exercised its entitlement to elect a majority of the Board of Directors of the Corporation.

Common Shares

As at October 15, 2012, there are 31,143,635 common shares outstanding.

COMMITMENTS

As part of the Tunisian government's approval of extensions on the Sfax Permit to December 8, 2012, the joint venture partners are committed to drilling an exploration well, with depth to a specified geological zone, during the extension period. The actual cost for an exploration well will depend on the selection of the prospect and location within the Sfax Permit. Based on current information, the Corporation estimates that its share of the cost to meet this commitment ranges between US$6 million and US$9 million. During the third quarter of the current year, the Corporation received a commitment from Dundee Corporation to provide the necessary financial resources to the Corporation to enable it to complete the drilling obligation pursuant to the terms of the Sfax Permit, subject to certain conditions, including obtaining the consent of the Tunisian authorities to an extension of the term of the Sfax Permit.

In the event that its drilling commitment is not completed, a compensatory payment of up to US$12 million will be payable to the Tunisian government by the joint venture partners, less any amounts previously incurred by the joint venture partners in respect of the furtherance of its obligations pursuant to the Sfax Permit.

RELATED PARTY TRANSACTIONS

Other than as described in Note 13 to the September 2012 Interim Financial Statements, there have been no significant changes in the nature and scope of the related party transactions to those described in Note 15 to the 2011 Audited Financial Statements and the accompanying MD&A.

BUSINESS RISKS

During the third quarter of 2012, the Corporation, together with its joint venture partners, filed an application with the Tunisian Director General of Energy for a renewal of the Sfax Permit for an additional three-year period to December 2015. In addition, the joint venture partners also requested an extension of its current drilling commitment period (see *"Commitments"*), to coincide with the renewal period. The Corporation is not able to ascertain whether it will receive a favourable response from the Tunisian authorities in respect of its application.

The Corporation is currently in the exploration and evaluation stage of its landholdings in Tunisia and, in accordance with accounting requirements, expenditures incurred in these activities are deferred, subject to impairment testing, until such time as the Corporation discovers commercially viable reserves for development and production. The recovery of deferred costs is contingent on the discovery of such commercially viable reserves and future profitable production. The business activities of the Corporation will require substantial amounts of capital in order to execute future exploration and evaluation work.

The Corporation currently has $8,562 in cash. On January 31, 2012, the Corporation established a $2.5 million demand credit facility with its principal shareholder, Dundee Corporation. On October 15, 2012, the Corporation entered into an amended demand credit facility, increasing the amounts available from $2.5 million to $5.0 million. At September 30, 2012, $2.6 million had been drawn. Any additional funding required by the Corporation would have to be accessed through debt or equity financings and/or bank borrowings, or through farmout option arrangements. There can be no assurance that such financings or other arrangements would be available to the Corporation. Raising funds by equity financings would result in dilution, possibly

substantial, to present and prospective shareholders of the Corporation. Bank borrowings that might be made available to the Corporation are typically determined in part by the borrowing base of the Corporation. The Corporation currently has no revenue sources to provide a borrowing base.

There are a number of other inherent risks associated with the Corporation's activities and with its current and future stages of development. These risks were detailed in the section entitled "*Business Risks*" in the Corporation's MD&A accompanying its 2011 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. 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 judgments about the carrying values 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 changes to the accounting policies applied in the preparation of the Corporation's September 2012 Interim Financial Statements from those detailed in Note 3 to the Corporation's 2011 Audited Financial Statements. A summary of the more significant judgments and estimates made by management in the preparation of its financial information is provided in Note 4 to the 2011 Audited Financial Statements. There have been no significant changes in these judgments and estimates during the nine months ended September 30, 2012.

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 September 2012 Interim Financial Statements and in the accompanying MD&A.

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. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were any changes to the Corporation's control over financial reporting during the nine months ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting. There were no changes identified during their evaluation.

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*.

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(unaudited)

(expressed in Canadian dollars)

	Note	As at September 30, 2012	As at December 31, 2011
ASSETS			
Current			
Cash		$ 8,562	$ 99,550
Accounts receivable		30,576	39,897
Prepaids	7	-	601,414
		39,138	740,861
Non-current			
Property, plant and equipment	4	1,618,776	1,618,776
Exploration and evaluation properties	5	6,998,590	5,875,923
		$ 8,656,504	$ 8,235,560
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 258,698	$ 127,994
Amounts due to Dundee Corporation	6	2,575,563	769,720
Decommissioning liability	7	33,200	946,518
Accrued dividends on Series A Preference Shares	9	5,344,279	4,381,536
Series A Preference Shares	9	32,150,000	32,150,000
		40,361,740	38,375,768
SHAREHOLDERS' DEFICIENCY			
Share capital	10	1	1
Contributed surplus	10	18,000	18,000
Deficit		(31,723,237)	(30,158,209)
		(31,705,236)	(30,140,208)
		$ 8,656,504	$ 8,235,560

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Nature of Operations and Going Concern Assumption (Note 1)

Commitments (Note 14)

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS
OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)

(expressed in Canadian dollars, except per share amounts)

	Note	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
ITEMS IN NET LOSS					
Exploration and evaluation expenditures		$ (53,148)	$ (28,171)	$ (139,387)	$ (179,093)
Loss from changes in estimate of decommissioning liability	7	-	(108,603)	(98,363)	(64,770)
General and administrative expenses	11	(89,657)	(117,705)	(316,114)	(491,573)
Dividends on Series A Preference Shares	9	(323,257)	(324,142)	(962,743)	(961,857)
Interest and other income		-	-	-	21
Other interest expense	6	(24,312)	(6,598)	(49,946)	(20,304)
Foreign exchange gain		3,360	76,159	1,525	5,199
NET AND COMPREHENSIVE LOSS FOR THE PERIOD		$ (487,014)	$ (509,060)	$ (1,565,028)	$ (1,712,377)
NET LOSS PER COMMON SHARE					
Basic and diluted net loss per common share	12	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.05)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(unaudited)

(expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2010	$ 1	$ 15,287	$ (28,143,473)	$ (28,128,185)
Transactions for the nine months ended September 30, 2011				
Stock based compensation	-	4,488	-	4,488
Net loss for the period	-	-	(1,712,377)	(1,712,377)
Balance, September 30, 2011	1	19,775	(29,855,850)	(29,836,074)
Transactions from October 1, 2011 to December 31, 2011				
Stock based compensation	-	(1,775)	-	(1,775)
Net loss for the period	-	-	(302,359)	(302,359)
Balance, December 31, 2011	1	18,000	(30,158,209)	(30,140,208)
Transactions for the nine months ended September 30, 2012				
Net loss for the period	-	-	(1,565,028)	(1,565,028)
Balance, September 30, 2012	$ 1	$ 18,000	$ (31,723,237)	$ (31,705,236)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

EUROGAS INTERNATIONAL INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOW
(unaudited)

(expressed in Canadian dollars)

	Note	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
OPERATING ACTIVITIES			
Net loss for the period		$ (1,565,028)	$ (1,712,377)
Non-cash items in net loss			
Non-cash changes in accrued dividends on Series A Preference Shares	9	962,743	961,857
Loss from changes in estimate of decommissioning liability	7	98,363	64,770
Stock based compensation	10	-	4,488
Other		(3,629)	40,382
		(507,551)	(640,880)
Changes in non-cash working capital:			
Accounts receivable		8,286	-
Prepaids		41,521	(11,450)
Accounts payable and accrued liabilities		49,130	(80,445)
Reclamation expenditures	7	(447,124)	-
CASH USED IN OPERATING ACTIVITIES		(855,738)	(732,775)
FINANCING ACTIVITIES			
Changes in amounts due to Dundee Corporation	6	1,805,843	279,180
CASH PROVIDED FROM FINANCING ACTIVITIES		1,805,843	279,180
INVESTING ACTIVITIES			
Net proceeds from short term investments		-	60,755
Investment in property, plant and equipment	4	-	(163,370)
Proceeds from settlement of Seawolf litigation	5	-	1,313,460
Investment in exploration and evaluation properties	5	(1,041,093)	(942,855)
CASH (USED IN) PROVIDED FROM INVESTING ACTIVITIES		(1,041,093)	267,990
NET DECREASE IN CASH DURING THE PERIOD		(90,988)	(185,605)
CASH, BEGINNING OF PERIOD		99,550	1,055,193
CASH, END OF PERIOD		$ 8,562	$ 869,588

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN ASSUMPTION

Eurogas International Inc. ("Eurogas International" or the "Corporation") is incorporated under the Companies Act (Barbados), and is an independent oil and gas company engaged in the exploration and evaluation of its landholdings offshore Tunisia, targeting large-scale oil and natural gas reserves. The Corporation is domiciled in Barbados and its registered office is c/o George Walton Payne & Company, Suites 205-207 Dowell House, Roebuck & Palmetto Streets, City of Bridgetown, Barbados.

The common shares of the Corporation are listed on the Canadian National Stock Exchange under the symbol "EI". At September 30, 2012, Dundee Corporation, the principal shareholder of the Corporation, controlled 53% of the issued and outstanding common shares of the Corporation.

These unaudited condensed interim financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Corporation will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2012, the Corporation had negative working capital of $40,322,602 (December 31, 2011 – negative working capital of $37,634,907) and, during the nine months then ended, it had incurred a net loss of $1,565,028 (nine months ended September 30, 2011 – net loss of $1,712,377). In addition, the Corporation has declared a condition of Force Majeure with respect to certain exploration and evaluation properties (Note 5). These material uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern and, as a result, upon the appropriateness of using accounting principles applicable to a going concern.

The Corporation's ability to continue as a going concern is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for such identified reserves, the ability to raise the necessary capital to finance development, and future profitable production or proceeds from disposition. There can be no assurance that the Corporation will be successful in achieving these initiatives.

These unaudited condensed interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. In such case, the Corporation may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these unaudited condensed interim financial statements. These differences could be material.

2. BASIS OF PRESENTATION

These unaudited condensed interim financial statements of the Corporation as at and for the three and nine months ended September 30, 2012 ("September 2012 Interim Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *"Interim Financial Reporting*". The September 2012 Interim Financial Statements were authorized for issuance by the Board of Directors on October 15, 2012.

The September 2012 Interim Financial Statements follow the same accounting principles and methods of application as those disclosed in Note 3 to the Corporation's audited financial statements as at and for the year ended December 31, 2011 ("2011 Audited Financial Statements"). The September 2012 Interim Financial Statements do not include all disclosures required by IFRS for annual financial statements and accordingly, should be read in conjunction with the 2011 Audited Financial Statements.

The preparation of the September 2012 Interim Financial Statements requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, revenues and other items in net earnings (loss), and the related disclosure of contingent assets and liabilities, if any. 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 judgments about the carrying value of assets and liabilities and the reported amount of revenues and other items in net earnings (loss) 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 in accounting judgments, estimates and assumptions made by the Corporation in the preparation of the September 2012 Interim Financial Statements from those judgments, estimates and assumptions disclosed in Note 4 to the 2011 Audited Financial Statements.

3. ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS NOT YET EFFECTIVE

On May 17, 2012, the IASB released *"Annual Improvements 2009 - 2011 Cycle"*, as a series of amendments to IFRS, as its latest set of annual improvements. The Corporation has noted the following specific amendments included in the release which may impact the Corporation's financial statements:

Amendment to IAS 1, *"Presentation of Financial Statements"* ("IAS 1") – IAS 1 requires the presentation of an additional, opening statement of financial position when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification. Amendments to IAS 1 clarify the disclosure requirements such that certain comparative information is only required if it has a material effect upon the information that is presented in the statement of financial position.

Amendment to IAS 16, *"Property, Plant and Equipment"* ("IAS 16") – IAS 16 was amended to provide further clarity on accounting for spare parts and servicing equipment. Before the amendment, IFRS required the classification of spare parts and servicing equipment as inventory. The amendment clarifies that these items should be classified as property, plant and equipment if they meet the definition pursuant to IAS 16.

Amendment to IAS 32, *"Financial Instruments: Presentation"* ("IAS 32") – IAS 32 was amended to clarify the treatment of income taxes relating to distributions and transaction costs.

The above referenced amendments are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Other than as discussed above, new accounting standards, interpretations and amendments to existing standards that are not yet effective were outlined in Note 3 to the 2011 Audited Financial Statements.

The Corporation has not yet determined the impact, if any, that the new and amended standards may have on its financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

The Corporation holds a 45% joint interest in a mobile offshore production unit (the "MOPU"), which was acquired with the expectation of producing, processing and transporting oil and natural gas. Non-operating costs associated with the MOPU have been included in these financial statements as property, plant and equipment. The Corporation may consider alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

		Investment in MOPU
Carrying value, December 31, 2010	$	1,406,286
Transactions during the nine months ended September 30, 2011		
Investment		163,370
Carrying value, September 30, 2011		1,569,656
Transactions from October 1, 2011 to December 31, 2011		
Investment		49,120
Carrying value, December 31, 2011 and September 30, 2012	$	1,618,776

5. EXPLORATION AND EVALUATION PROPERTIES

		Exploration and Evaluation Properties (Sfax Permit)
Carrying value, December 31, 2010	$	4,665,001
Transactions during the nine months ended September 30, 2011		
Investment		975,423
Carrying value, September 30, 2011		5,640,424
Transactions from October 1, 2011 to December 31, 2011		
Investment		235,499
Carrying value, December 31, 2011		5,875,923
Transactions during the nine months ended September 30, 2012		
Investment		1,122,667
Carrying value, September 30, 2012	$	6,998,590

The Corporation has entered into a joint venture arrangement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction activities on the 1.0 million acre Sfax Offshore Permit (the "Sfax Permit") located offshore Tunisia. The Sfax Permit encompasses several prospects and leads, including the Salloum and Jawhara prospects, as well as a development concession granted over the Ras El Besh prospect. The Corporation owns a 45% working interest in the joint venture arrangement and APEX is the operating partner. On June 23, 2011, the Tunisian government extended the term of the Sfax Permit to December 8, 2012. As a condition of the extension, the joint venture partners committed to drill an exploration well on the Sfax Permit during the extension period (Note 14).

During the third quarter of 2012, the Corporation and its joint venture partner filed an application with the Tunisian Director General of Energy for a renewal of the Sfax Permit, requesting a three-year extension to December 2015. In addition, the joint venture partners also requested an extension of the Corporation's drilling commitment pursuant to the Sfax Permit (Note 14) to coincide with the three-year renewal. The Corporation is not able to ascertain whether it will receive favourable approval from the Tunisian authorities in respect of its application.

Declaration of Force Majeure

As a result of political uncertainty and civil unrest in Tunisia, on January 18, 2011, the Corporation announced that, together with APEX, it had declared a condition of Force Majeure with respect to the Sfax Permit and Ras El Besh development concession. The Corporation believes that the declaration of Force Majeure allowed the Corporation and APEX to suspend their activities, while the conditions resulting in the Force Majeure continued.

Farmout Arrangements with Delta Hydrocarbons B.V.

In prior years, the Corporation and APEX had entered into a farmout option agreement with Delta Hydrocarbons B.V. ("Delta"), pertaining to the farmout of a 50% working interest in the joint venture arrangement relating to the Sfax Permit and the Ras El Besh development concession. Delta subsequently expressed a desire to exit from the farmout option agreement and, under a settlement arrangement, Delta forfeited its 50% working interest option in exchange for a portion of certain payments, if and when received by the joint venture partners, to a maximum of US$20 million. Payments to Delta pursuant to the settlement arrangement may include a share of the proceeds from the cost oil portion of any future production revenues realized from the Sfax Permit and the Ras El Besh development concession and a share of the proceeds from any sale or lease of the MOPU.

Litigation against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited

During the nine months ended September 30 of the prior year, the Corporation received US$1,350,000 (Cdn$1,313,460) in proceeds from the settlement of litigation which the joint venture partners had initiated against Seawolf Oilfield (Cyprus) Limited and Seawolf Oilfield Services Limited. The Corporation sought damages for misrepresentations and breach of a drilling contract in respect of the REB-3 well drilled on the Ras El Besh development concession.

6. AMOUNTS DUE TO DUNDEE CORPORATION

On January 31, 2012, the Corporation established a $2.5 million revolving demand credit facility with Dundee Corporation. Borrowings under the facility bear interest at a rate per annum equal to the prime lending rate for loans as set out by a Canadian Schedule I Chartered Bank, plus 1.25%. On October 15, 2012, the Corporation entered into an amended demand credit facility, increasing the amounts available from $2.5 million to $5.0 million. At September 30, 2012, the Corporation had drawn $2,575,563 against the facility, including amounts advanced pursuant to the amended facility. Interest expense incurred during the three and nine months ended September 30, 2012 in respect of the facility was $23,936 and $48,272 respectively. As lender to the Corporation, Dundee Corporation may, at its discretion and subject to the necessary regulatory approvals, require the Corporation to convert all of the amounts outstanding pursuant to the credit facility, including interest thereon, into common shares of the Corporation, at a conversion price that is based on the fair value of the common shares, defined as the closing price of the common shares of the Corporation at the time of such conversion, subject to a minimum conversion price of $0.05 per common share.

Amounts due to Dundee Corporation prior to the establishment of the revolving demand credit facility were due on demand, were unsecured and were non-interest bearing.

7. DECOMMISSIONING LIABILITY

		As at and for the nine months ended September 30, 2012		As at and for the year ended December 31, 2011
Undiscounted future obligations, beginning of period (US dollars)	$	930,696	$	1,462,500
Adjustments to estimates		98,875		(135,890)
Liabilities settled on transfer of prepaid amounts		(550,534)		-
Liabilities settled in cash		(445,287)		(395,914)
Undiscounted future obligations, end of period (US dollars)	$	33,750	$	930,696
Foreign exchange rate		0.9837		1.0170
	$	33,200	$	946,518

		As at and for the nine months ended September 30, 2012		As at and for the year ended December 31, 2011
Discount rates applied to future obligations		*1.68%*		*1.68%*
Discounted future obligations, beginning of period	$	946,518	$	1,430,568
Liabilities settled on transfer of prepaid amounts		(559,893)		-
Liabilities settled in cash		(447,124)		(402,645)
Adjustments to estimates		98,363		(138,200)
Effect of changes in foreign exchange rates		(4,664)		32,742
Accretion		-		24,053
Discounted future obligations, end of period	$	33,200	$	946,518

The joint venture partners substantially completed the abandonment and site restoration of the REB-3 well within the Ras El Besh development concession during the first quarter of the current year. As a condition of the settlement arrangements with Delta (Note 5), Delta funded 50% of the costs of abandonment and site restoration.

8. INCOME TAXES

The Corporation's activities are subject to income taxation in Barbados at a rate of 2.5%. After consideration of estimated future taxable income and potential tax planning strategies, the Corporation has determined that the benefit of loss carry forwards should not be recognized. Accordingly, the Corporation has not recorded an income tax recovery amount or a deferred income tax asset in respect of its operating losses.

9. PREFERENCE SHARES

The Corporation is authorized to issue an unlimited number of preference shares without nominal or par value. The preference shares may be issued in one or more series.

Series A Preference Shares

At September 30, 2012, the Corporation had issued 32,150,000 Series A Preference Shares with a face value of $32,150,000. The Series A Preference Shares are held by Dundee Energy Limited ("Dundee Energy"), a subsidiary of Dundee Corporation. The terms of the Corporation's Series A Preference Shares are summarized in Note 11 to the 2011 Audited Financial Statements.

During the three and nine months ended September 30, 2012, the Corporation recognized an expense of $323,257 and $962,743 respectively (three and nine months ended September 30, 2011 - $324,142 and $961,857 respectively), representing the dividends accrued on the Series A Preference Shares. At September 30, 2012, cumulative dividends outstanding were $5,344,279 (December 31, 2011 - $4,381,536).

Dundee Energy has not advised the Corporation of its intent with respect to exercising its right to the redemption of the Series A Preference Shares and its entitlement to demand payment of the associated cumulative dividends outstanding. Accordingly, at September 30, 2012, the Corporation has classified these obligations as current obligations. Furthermore, at September 30, 2012, Dundee Energy had not exercised its entitlement to elect a majority of the members of the Board of Directors of the Corporation.

10. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Outstanding, December 31, 2010	31,143,635	$ 1	$ 15,287
Transactions during the nine months ended September 30, 2011			
Stock based compensation	-	-	4,488
Outstanding, September 30, 2011	31,143,635	1	19,775
Transactions from October 1, 2011 to December 31, 2011			
Stock based compensation	-	-	(1,775)
Outstanding, December 31, 2011 and September 30, 2012	31,143,635	$ 1	$ 18,000

Stock Based Compensation

A detailed description of the Corporation's stock based compensation arrangements is provided in Note 12 to the 2011 Audited Financial Statements.

Share Option Plan

At September 30, 2012, the Corporation had 600,000 outstanding options (December 31, 2011 – 600,000 options) with a weighted average exercise price of $0.10 per option, of which 600,000 options (December 31, 2011 – 600,000 options) had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life at September 30, 2012 of 1.71 years.

The Corporation did not recognize any stock based compensation during the three and nine months ended September 30, 2012, as the outstanding options were fully vested at December 31, 2011. During the three and nine months ended September 30, 2011, the Corporation recognized stock based compensation expense of $1,512 and $4,488 respectively.

Deferred Share Unit Plan

There are currently no units granted to eligible participants under the Corporation's deferred share unit plan.

11. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

	For the three months ended		For the nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Salary and salary-related	$ 47,125	$ 47,779	$ 144,179	$ 148,425
Stock based compensation	-	1,512	-	4,488
Corporate and professional fees	143,826	185,045	478,410	708,602
General office	19,869	11,192	63,730	67,923
Expense recoveries	-	-	-	(9,917)
Capitalization of general and administrative costs	(121,163)	(127,823)	(370,205)	(427,948)
	$ 89,657	$ 117,705	$ 316,114	$ 491,573

12. NET LOSS PER SHARE

	For the three months ended		For the nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net loss from operations attributable to shareholders	$ (487,014)	$ (509,060)	$ (1,565,028)	$ (1,712,377)
Weighted average number of common shares outstanding	31,143,635	31,143,635	31,143,635	31,143,635
Basic and diluted net loss per common share	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.05)

The Corporation has issued stock options pursuant to stock based compensation arrangements. The dilutive effect of options has not been included in the determination of the weighted average number of common shares outstanding as the inclusion thereof would be anti-dilutive to the net loss per share.

13. RELATED PARTY TRANSACTIONS

The Corporation has entered into a services arrangement with Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation. The services arrangement with Dundee Resources Limited provides the Corporation with administrative support services as well as geophysical, geological and engineering consultation with regard to the Corporation's activities. During the three and nine months ended September 30, 2012, the Corporation incurred costs of $72,838 and $227,511 respectively (three and nine months ended September 30, 2011 - $89,676 and $256,208 respectively), in respect of these arrangements.

Key Management Compensation

Compensation and other fees paid to members of the Board of Directors of the Corporation and to the President and Chief Executive Officer of the Corporation during the three and nine months ended September 30, 2012 and 2011 are shown below:

	For the three months ended		For the nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Directors' fees and consulting arrangements	$ 78,375	$ 78,375	$ 236,624	$ 239,624
Stock based compensation	-	1,512	-	4,488
Benefits	-	654	1,304	2,550
	$ 78,375	$ 80,541	$ 237,928	$ 246,662

14. COMMITMENTS

As part of the Tunisian government's approval of the extension of the term of the Sfax Permit to December 8, 2012, the joint venture partners are committed to drilling an exploration well, with depth to a specified geological zone, during the extension period. The actual cost for an exploration well will depend on the selection of the prospect and location within the Sfax Permit. Based on current information, the Corporation estimates that its share of the costs to meet this commitment ranges between US$6 million and US$9 million.

The Corporation received a commitment from Dundee Corporation to provide the necessary financial resources to the Corporation to enable it to complete its drilling obligation pursuant to the terms of the Sfax Permit, subject to certain conditions, including obtaining the consent of the Tunisian authorities to an extension of the term of the Sfax Permit.

In the event that the Corporation's drilling commitment is not completed, a compensatory payment of up to US$12 million will be payable to the Tunisian government by the joint venture partners, less any amounts previously incurred by the joint venture partners in respect of the completion of the Corporation's obligations pursuant to the Sfax Permit.

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STOCK EXCHANGE

CNSX

STOCK SYMBOL

EI