EUROGAS INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2009

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), 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 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 February 4, 2010 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, 2009 (the "2009 Audited Financial Statements"). All amounts are in Canadian dollars unless otherwise specified. Financial data has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise specified.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources, and other risk factors discussed or referred to in the section entitled "Business Risks" in 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.

BUSINESS REORGANIZATION COMPLETED IN 2008

On July 10, 2008, Eurogas Corporation, the Corporation's former parent, announced a restructuring plan that would allow for the distribution of its 100% interest in the Corporation as a dividend-in-kind to shareholders of Eurogas Corporation (the "Restructuring"), such that each shareholder of Eurogas Corporation received one newly issued common share of the Corporation for every five shares of Eurogas Corporation held. The Restructuring was completed on August 5, 2008.

As part of the Restructuring, Eurogas Corporation exchanged its previous interest in the common shares of the Corporation for 32,150,000 newly issued Series A Preference Shares and 31,143,635 newly issued common shares of the Corporation. As noted previously, the newly issued common shares were then distributed to shareholders of Eurogas Corporation, at nominal value, as part of the Restructuring.

Series A Preference Shares

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 Eurogas Corporation, as 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 Eurogas Corporation, at any time, at a price equal to their face value of $32.15 million. Eurogas Corporation has indicated that it does not intend to exercise its redemption entitlement until December 2011.

In August 2009, Eurogas Corporation approved a request by Eurogas International 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. Eurogas Corporation may, if requested by Eurogas International, reinvest any such dividends received in cash into common shares of the Corporation, subject to regulatory approval.

BUSINESS DEVELOPMENTS

Sfax Offshore Exploration Permit

Eurogas International is currently conducting exploration and evaluation programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where it holds its interests in the Sfax Permit.

The Corporation is a non-operating partner in the permit. In order to carry out its business activities, the Corporation entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. (“APEX”), pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction operations pursuant to the working interest awarded to them in the 1.0 million acre Sfax Offshore Exploration Permit (the “Sfax Permit”). APEX is the operating partner in the joint venture arrangement.

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

Following the granting of the Sfax Permit in 2004, the Corporation and its then sole joint venture and operating partner, APEX, acquired a new 3-D seismic program over 348 km^2 of the permit, which included the known Ras-El-Besh and Jawhara prospects that tested oil. The seismic provided an improved understanding of the geology.

During 2005, the Sfax Permit was converted to an exploration permit under the terms of a production sharing contract. The four year permit commenced December 9, 2005 and included a commitment to undertake seismic work, which has been completed, and to drill one exploration well prior to December 9, 2009. The Ras-El-Besh well (see “Ras-El-Besh Concession”) was the commitment well for the Sfax Permit. On January 19, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension to the Sfax Permit, which will extend the primary term to December 8, 2011. As a condition of the extension, the Corporation committed to drill an additional exploration well on the Sfax Permit during the extension period.

The Corporation, on behalf of the joint venture, is overseeing the reprocessing of four 3-D seismic surveys on the Sfax Permit. The 340 km^2 Sfax program over the Ras-El-Besh and Jawhara oil prospects is now complete and mapping has commenced. The 60 km^2 and 460 km^2 programs for Salloum and the Kerkennah Banks, respectively, and a portion of the older Ashtart 3-D survey will be reprocessed during the first half of 2010. Selected 2-D seismic lines will also be reprocessed to support the mapping of prospects and leads on the permit. Once this reprocessing is complete, the Corporation, together with its joint venture partner, will remap the prospects and leads, then seek a new farmout partner to drill an exploration well to satisfy the outstanding drilling obligation.

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 application was accepted by the Hydrocarbon Committee of the Tunisian government in July 2006 and the concession was gazetted on September 5, 2008 following commencement of drilling the REB-3 well on June 16, 2008. The REB-3 well is recognized by the Tunisian government as the commitment well under the initial term of the Sfax Permit, which ended on December 9, 2009.

The REB-3 well reached total depth of 2,204 metres. Well logs and formation pressure tests identified the presence of oil in a high quality, 10-metre thick carbonate interval in the Reineche formation, which was subsequently confirmed by down-hole sampling. The well was plugged back and drilled horizontally to 3,284 metres. The sidetrack intercepted the top of the Reineche formation in a lower fault block approximately 1,000 metres to the northwest of the REB-3 well, then drilled horizontally through 400 metres of porous formation. The horizontal section was tested and produced over 1,000 barrels per day of fluid with a 10% cut of 27° API oil. Oil has now been tested at two locations 1,000 metres apart.

Upon completion of drilling and testing the REB-3 well, the joint venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig, both of which were done. Agreement by the Tunisian government was subject to the reinterpretation and remapping of seismic data, after which the joint venture partners must decide to either reenter or abandon the well. This assessment will be conducted during 2010. In the event of abandonment, the total cost to the joint venture is estimated at between US$6.5 million to US$10 million. Actual costs will depend on factors such as the mobilization and demobilization cost of the rig and prevailing rates.

Mobile Offshore Production Unit

The Corporation holds an interest in a mobile offshore production unit ("MOPU") through its 45% investment in Innovative Production Services Ltd. ("IPS") which was acquired with the expectation of producing, processing and transporting oil on certain development concessions on the Sfax Permit. During the year ended December 31, 2009, the Corporation expended $1,558,130 (2008 - $571,825) to renovate and upgrade the MOPU. The Corporation is currently evaluating alternative usage of the MOPU, including the monetization of the asset through a possible sale or lease arrangements.

Agreement with Delta Hydrocarbons B.V.

On April 7, 2008, the Corporation and APEX entered into a farmout agreement with Delta Hydrocarbons B.V. ("Delta") whereby Delta acquired a 50% participation in the Sfax Permit, including the Ras-El-Besh development concession as well as a 50% interest in the MOPU, subject to a commitment to spend US$125 million, including a cash payment to the Corporation of $11,161,266.

In May 2009, Delta expressed a desire to exit from the farmout agreement. 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 certain asset retirement obligations until December 9, 2011 as well as to fund its pro-rata share of ongoing costs associated with the Seawolf Litigation (see below).

Capital expenditures, during the period of the farmout agreement, were funded directly by Delta pursuant to its spending commitment. Subsequent to the reassignment of Delta's participating interest, the Corporation's participating interest in the Sfax Permit, the Ras-El-Besh development concession and the MOPU was 45% and APEX's participating interest was 55%. Accordingly, the Corporation is responsible for 45% of ongoing capital expenditures related to these activities.

The Seawolf Litigation

APEX, as operator under the Sfax joint venture 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 ("LCIA"). APEX filed a statement of case seeking damages for misrepresentations and breach of a drilling contract in respect of the REB-3 well, as well as payment of indemnities under the contract. Seawolf responded to APEX's claims and filed a counterclaim. APEX is in the process of preparing for the LCIA hearing, which is scheduled for the second quarter of 2010. During the third quarter of 2009, APEX was successful in obtaining a default judgment against Seawolf in the state of Texas.

2009 Expenditures - Tunisian Asset Pool

All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations. During the year ended December 31, 2009, an aggregate of $3.4 million (2008 - $3.4 million) was capitalized to the Tunisian asset pool.

For the year ended December 31,	2009	2008
Opening balance	$ 17,819,331	$ 25,548,113
Transactions during the year		
Sfax permit	1,880,051	2,618,665
Ras-El-Besh expenditures, net	(81,615)	241,994
Mobile offshore production unit "Ocean Patriot"	1,558,130	571,825
Farmout arrangements with Delta Hydrocarbons B.V.	-	(11,161,266)
Closing balance	$ 21,175,897	$ 17,819,331

Work Program for 2010

The estimated budget for the Sfax Permit and the Ras-El-Besh development concession for 2010, including costs associated with the Seawolf Litigation, is US$5.9 million, of which Eurogas International is responsible for its net share (net US$2.6 million).

Following the results of the REB-3 well and the exit of Delta, the Joint Venture partners focused the balance of 2009 on reevaluating the Ras-El-Besh concession area and north of it covering both the Reineche and the El Garia formations. Initially, this entailed geological studies and the reprocessing of four existing 3-D seismic programs and selected 2-D seismic lines. The work program includes geophysical evaluation of the satellite structures to the 330 million barrel Ashtart oil field adjacent to the eastern boundary of the Permit.

The work program for 2010 includes feasibility studies to evaluate the Salloum oil prospect as a future drilling candidate on the Sfax Permit. An exploration well, (SAM 1) located 1.5 kilometres off the east coast of Tunisia, was drilled in 1991 by a previous operator and tested 1800 bpd of 42° API oil with no water from Bireno limestones. This structure is located in the northeast corner of the Sfax Permit in shallow waters adjacent to the city of Sfax and is adjacent to two producing oil fields that produce from the same targeted formation. In 2007, the Corporation and APEX acquired 60 km^2 of shallow water 3-D seismic over this prospect. Revised mapping based on the 3-D seismic program acquired in 2007 and older 2-D seismic suggests the Salloum structure extends toward the shoreline and could be drilled from an onshore location, the viability of which will be an aspect of the feasibility study.

In the fourth quarter of 2009, the Corporation supervised the reprocessing of the 2007 3-D program and will remap the Salloum structure to determine a drillable location.

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 year ended December 31, 2009 compared with the year ended December 31, 2008

During the year ended December 31, 2009, the Corporation incurred a net loss of $3.9 million or approximately $0.12 per share. This compares with a net loss of $0.8 million, or $0.03 per share, in the prior year.

Expenses incurred during the current year were $4.0 million (2008 - $0.9 million). Expenses include $1.3 million of interest expense associated with the Corporation's issuance of the Series A Preference Shares pursuant to the Restructuring. This compares with interest expense of $0.5 million in the prior year, as the Series A Preferred Shares were first issued in mid-2008.

General and administrative expenses incurred during 2009 were $2.0 million, an increase of $1.3 million over general and administrative expenses of $0.7 million in 2008. Expenditures in 2009 include approximately $1.0 million related to the Corporation's share of costs in pursuing the Seawolf Litigation. In addition, and as a result of the Corporation's listing on the CNSX, the Corporation incurred costs of approximately $0.4 million, including costs relating to its registrar and transfer agent, filing fees and directors' fees.

Aggregate depreciation and accretion expense during the year ended December 31, 2009 was $0.6 million (2008 - $nil) and included amounts related to the MOPU and to the reclamation costs associated with the REB-3 well.

For the three months ended December 31, 2009 compared with December 31, 2008

The Corporation incurred a net loss during the three months ended December 31, 2009 of $1.2 million compared with a net loss of $0.4 million in the same period of the prior year.

Expenses incurred during the fourth quarter of 2009 were $1.2 million compared with expenses of $0.4 million in the same period of the prior year. General and administrative costs, including legal costs associated with the Seawolf Litigation increased to $0.8 million in the fourth quarter of 2009, compared with costs of $0.3 million in the fourth quarter of the prior year. Also contributing to the increase in expenses quarter-over-quarter are depreciation and accretion costs of $0.2 million (2008 - $nil) related to the MOPU and the reclamation costs associated with the REB-3 well.

As a result of changes in foreign currency rates on both the U.S. dollar and the Euro, the Corporation incurred a foreign exchange transaction loss of $0.2 million in the fourth quarter of the prior year, compared with a foreign exchange loss of approximately $25,000 in the fourth quarter of the current year.

SUMMARY OF QUARTERLY RESULTS

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Interest income	$ 4,273	$ 22,805	$ 47,893	$ 48,572
Net loss from continuing operations	1,215,629	1,062,975	868,837	732,952
Capital expenditures	267,381	955,258	1,856,847	277,080

	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Interest income	$ 55,211	$ 76,008	$ 7,396	$ 1,948
Net loss from continuing operations	378,194	153,432	208,845	59,883
Capital expenditures	1,706,133	325,687	93,067	1,307,597

LIQUIDITY AND CAPITAL RESOURCES

Cash Resource Availability

At December 31, 2009, the Corporation had cash and short term investments of $4.2 million compared with cash and deposits of $10.2 million in the prior year.

The partners in the joint venture are pursuing a significant exploration, evaluation and drilling program. The primary plans for the Sfax Permit are to explore and evaluate and, if the evaluation results in economically viable reserves, to develop the prospect and leads. In addition, if the results of the horizontal well at Ras-El-Besh indicate potential for development of the Reineche formation, additional Reineche structures within the Sfax Permit could be targeted for further evaluation.

The Corporation currently has working capital of approximately $3.6 million. At a 45% ownership interest, this amount would cover expenditures of $8.0 million towards the 2010 Work Program. In the event that the joint venture partners decide to abandon the REB-3 well, the 2010 Work Program will be adjusted accordingly. Management believes that working capital is sufficient to meet the Corporation's current requirements. Any additional funding requirements would have to be accessed through debt or equity financings, farmout arrangements and/or bank borrowings. There can be no assurance that such funding or borrowing would be available to Eurogas International.

Outstanding Share Data

As at February 4, 2010, there were 31,143,635 common shares and 32,150,000 Series A Preference Shares outstanding.

COMMITMENTS

During the year, the Tunisian Hydrocarbon Committee approved a two-year extension on the Sfax Permit, which will extend the primary term to December 8, 2011. As a condition to the extension, the Corporation committed to drilling one new exploration well during the extension period. The Corporation has not completed its estimate of the costs to meet this commitment as the costs are partially contingent on the selection of the prospect and location within the Sfax Permit.

RELATED PARTY TRANSACTIONS

Other than those described in Note 11 to the financial statements of the Corporation as at and for years ended December 31, 2009 and 2008, there are no other material related party transactions.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's activities and with its current stage of exploration. The following outlines some of the Corporation's principal risks and their potential impact to the Corporation. If any of the following risks actually occur, the Corporation's business may be harmed and the Corporation's financial condition and results of operations may suffer significantly.

Exploration, Development and Production Risks

Oil and gas operations involve many risks, which even a combination of experience and knowledge, and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. As at the date hereof, the Corporation does not have any properties that have reserves assigned to them within the definitions contained in the Canadian Oil and Gas Evaluation (COGE) Handbook and the Canadian Securities Administrators National Instrument 51-101. There is no assurance that commercial quantities of oil or natural gas will be discovered or acquired by the Corporation or that, if discovered, will be accessible for extraction.

Oil and gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field-operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

No History of Earnings

The Corporation has no history of earnings with respect to its activities, and there is no assurance that any of its material properties will generate earnings, operate profitably or provide a return on investment in the future. The Corporation has not paid dividends on its common shares in the past and has no plans to pay dividends on its common shares for the foreseeable future.

Reliance on Operators, Management and Key Personnel

The Corporation's business activities rely on the technical skill of the personnel involved. The Corporation is not the operator in the energy project in which it currently has an interest. To the extent that the Corporation is not the operator, the Corporation will be dependent on such operator for the timing of activities related to such projects and will largely be unable to direct or control the activities of the operator. The Corporation's success will also be dependent, in part, upon the performance of its joint venture partner, key managers, service providers and consultants. Furthermore, competition for qualified personnel in the oil and natural gas industry is intense. Failure to retain the managers and consultants, or to attract or retain additional key personnel with the necessary skills and experience, could have a materially adverse impact upon the Corporation's growth and profitability.

Additional Funding Requirements

The business and operations of the Corporation may require substantial additional capital in order to execute on any further exploration and development work. This includes the need to find another 'Farm in' operating partner to conduct and finance future exploration as required under the permit extension to December 2011.

The Corporation currently has $4.2 million in cash and short term investments. Any additional funding required from the Corporation would have to be accessed through debt or equity financings and/or bank borrowings, and there can be no assurance that such funding or borrowings would be available to the Corporation. In addition, 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 material revenue sources. The Corporation will need further development of its project to establish a borrowing base, based on proven reserves.

Permits and Licenses

In connection with its operations, the Corporation is required to obtain permits, and in some cases, renewals of permits from the authorities in Tunisia. In addition, the Corporation may also be required to obtain licenses and permits from government agencies in other foreign jurisdictions. The ability of the Corporation to obtain, sustain or renew such permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Further, if permits and licenses, or renewals thereof, are not issued to the Corporation or unfavourable restrictions or conditions are imposed on the Corporation's drilling activities, there is a possibility it will not be able to conduct its operations as planned. Alternatively, failure by the Corporation to comply with the terms of permits or licenses might result in the suspension or termination of operations and subject the Corporation to monetary penalties or restrictions on operations.

Foreign Operations

The Corporation's operations are subject to special risks inherent in doing business in other countries, including Tunisia. These risks may involve matters arising out of the policies of foreign governments, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies as well as bylaws and policies of Canada affecting foreign trade, investment and taxation.

The Corporation's planned capital expenditures are denominated in several currencies, the most important being the Euro and the U.S. dollar, while the Corporation's reporting currency is the Canadian dollar. Fluctuations in the rate of exchange may affect the ability of the Corporation to carry out its exploration and development programs. Future development costs may be higher than currently envisioned due to unforeseen events such as currency fluctuations. Currency fluctuations will also affect future profits. The Corporation does not currently actively hedge against foreign currency fluctuations. The Corporation's operations are also subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards.

Equipment and Related Costs

The Corporation's activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. In addition, equipment failures may occur which could result in injuries and/or exploration and development delays.

Competition

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for the acquisition of oil and natural gas properties. The Corporation's competitors include oil companies that have greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to find, and in the future increase, reserves will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploration and evaluation. Competitive factors in the distribution and marketing of oil and natural gas include price and reliability of the methods of delivery.

Regulatory

Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government (domestic and foreign) and may be amended from time to time. The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different from the way they would affect other oil and natural gas companies of similar size.

Environmental Concerns

The Corporation's activities are subject to environmental legislation in the jurisdictions in which it operates. A breach of such legislation may result in the imposition of fines or other penalties. Should the Corporation be unable to fully remedy the cost of an environmental problem, the Corporation or its operators might be required to suspend operations or enter into compliance measures pending completion of the required remedy. In certain circumstances, the Corporation may be required to obtain approval of environmental impact assessments. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of current activities or a material increase in the future costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition or results of operations.

Volatility of Commodity Prices and Alternative Fuel Sources

Oil and natural gas prices fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of the Corporation. Political and economic developments around the world can affect world oil and natural gas supply and prices. Any prolonged period of low oil and natural gas prices could result in a decision by the Corporation to suspend or terminate exploration, as it may become uneconomically feasible to explore for and/or produce oil or natural gas at such prices. Competition may also be presented by alternate fuel sources.

Hedging Activities

If the Corporation's properties produce commercial quantities of oil or natural gas, the Corporation may, from time to time, enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases.

Accounting Write-downs as a Result of GAAP
The Corporation intends to use the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows. To the extent that such capitalized costs (net of accumulated depreciation and depletion) less future taxes, exceed the present value of estimated future net cash flows from the Corporation's proved oil and natural gas reserves, those excess costs would be required to be charged to operations.

Canadian GAAP requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in our financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the price of the Common Shares.

Title to Properties
Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation, which could result in a reduction of the revenue received by the Corporation.

Potential Conflicts of Interest
Certain of the directors of the Corporation are also directors or officers of companies that are in competition to the interests of the Corporation. No assurances can be given that opportunities identified by such board members will be provided to the Corporation.

Taxation
The Corporation may be subject to taxation in the jurisdictions in which it operates. Any changes in tax legislation and practice in these jurisdictions could adversely affect the Corporation.

Reserves
There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material.

Insurance
Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property and the environment, or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation will maintain liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Litigation Risk
The legal risks facing the Corporation, its directors, trustees, officers and/or employees include potential liability for violations of environmental laws, health and safety laws, securities laws, damage claims for worker exposure to hazardous substances and for accidents causing injury or death. It is also possible that litigation and in particular, class action litigation, may increase in Canada as a result of the introduction of the secondary market civil liability regime. Litigation risk cannot be eliminated, even if there is no legal cause of action. Although the Corporation maintains liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that legal liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect on its financial condition.

ACCOUNTING POLICIES AND ESTIMATES

This management's discussion and analysis of the Corporation's financial condition and the results of its operations are based upon the financial statements of the Corporation. These statements have been prepared in accordance with Canadian GAAP. The preparation of these financial statements requires the Corporation to make assumptions, estimates and judgments 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 judgments 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.

The most critical accounting policies are those that the Corporation believes are the most important in portraying its financial condition and results of operations and those that require the most subjectivity and estimates by management. A summary of our significant accounting policies applied during 2009 are included in Note 2 to the 2009 Audited Financial Statements. A discussion of some of the more significant judgments and estimates made by management are as follows:

Recoverability of Exploratory Activities
The Corporation is currently in the exploratory and evaluation stage in Tunisia and capitalizes all associated costs. The recovery of the recorded costs is contingent upon the existence of economically recoverable reserves and future profitable production.

CHANGES IN ACCOUNTING POLICIES ADOPTED IN 2009

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

Financial Instruments – Disclosures

Beginning with fiscal 2009, the Corporation adopted the amendments to CICA Handbook Section 3862, "*Financial Instruments – Disclosures*". The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. Comparative information is not required in the year of adoption. The impact of these amendments is disclosed in Note 13 to these financial statements.

Impairment of Financial Assets

In August 2009, the Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 3855, "*Financial Instruments – Recognition and Measurement*", to achieve consistency with international standards on impairment of debt securities. The amendments changed the definition of a loan such that debt securities not quoted in an active market could be classified as a loan and measured at amortized cost. Impairment of debt securities classified as loans will be assessed and recorded using the incurred credit loss model of CICA Handbook Section 3025, *"Impaired Loans"*. Debt securities that are classified as available-for-sale securities continue to be written down to their fair value through earnings when the impairment is considered other-than-temporary. However, the impairment loss can be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The Corporation adopted these amendments for fiscal 2009 and the adoption of this new guidance had no impact on the reported results of the Corporation.

FUTURE ACCOUNTING CHANGES

Business Combinations

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

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

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

International Financial Reporting Standards

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

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

it will implement a communication strategy, as appropriate, aimed at all stakeholders, including employees, rating agencies and shareholders, to assist in their understanding of its transition to IFRS.

In addition to the areas of focus outlined above, the Corporation is also prioritizing certain IFRS conversion related activities that should be completed within a reasonable time period following January 1, 2010, the Corporation's IFRS transition date. Such activities include, but are not limited to, (a) completion of transition date oil and gas property impairment testing in accordance with IAS 36, *"Impairment of Assets",* and (b) accounting for joint arrangements in accordance with IAS 31, "*Interests in Joint Ventures*."

The Corporation will continue to monitor results from the existing conversion plan, as well as ongoing changes to IFRS, and adjust its transition and implementation plans accordingly. The Corporation's transition remains aligned to its implementation schedule and it is on track to meet the timelines essential to its changeover.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management, as appropriate, to allow timely decisions regarding required disclosures. The Corporation's Chief Executive Officer and Chief Financial Officer, together with management, have concluded, based on their evaluation as of the end of the period that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Corporation.

Internal Control Over Financial Reporting

Under the supervision of and with the participation of Eurogas International's management, including the Chief Executive Officer and the Chief Financial Officer, internal control over financial reporting has been designed and maintained in order to provide reasonable assurance regarding the reliability of financial reporting, as of the end of the period covered by the filings. During the quarter ended December 31, 2009, there have been no material changes in internal control over financial reporting. In common with many small companies, segregation of duties is difficult; however, the Corporation has compensating controls in place, including key management authorizations and reviews.

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

ADDITIONAL INFORMATION

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

EUROGAS INTERNATIONAL INC.

FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2009

Management's Responsibility for Financial Statements

The accompanying financial statements, the notes thereto and other financial information contained in the Corporation's management's discussion and analysis have been prepared by, and are the responsibility of, the management of the Corporation. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Corporation, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review its financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

(S*igned*)
M. Jaffar Khan
President and Chief Executive Officer

(S*igned*)
D. Christopher Hope
Chief Financial Officer

February 4, 2010

Auditors' Report to Shareholders
To the Shareholders of Eurogas International Inc.

We have audited the balance sheets of Eurogas International Inc. (the "Corporation") as at December 31, 2009 and 2008 and the statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)
PricewaterhouseCoopers LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 4, 2010

EUROGAS INTERNATIONAL INC.
Balance Sheets

		December 31, 2009		December 31, 2008
ASSETS				
Current				
Cash	$	185,901	$	1,435,653
Short term investments (Note 3)		4,005,040	$	-
Accounts receivable		57,461		8,734
Prepaids		77,653		-
Deposit with Eurogas Corporation (Note 11)		-		8,722,623
		4,326,055		10,167,010
Oil and natural gas properties (Note 4)		21,175,897		17,819,331
	$	25,501,952	$	27,986,341
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	554,163	$	122,355
Payable to Eurogas Corporation (Note 11)		150,882		886,223
		705,045		1,008,578
Asset retirement obligation (Note 6)		1,602,591		1,202,068
Accrued dividends on Series A Preference Shares (Note 8)		1,809,536		519,809
Series A Preference Shares (Note 8)		32,150,000		32,150,000
		36,267,172		34,880,455
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 9)		1		1
Contributed surplus (Note 9)		9,287		-
Deficit		(10,774,508)		(6,894,115)
		(10,765,220)		(6,894,114)
	$	25,501,952	$	27,986,341

The accompanying notes are an integral part of these financial statements

Commitments (Note 12)

On behalf of the Board,

(*Signed*)
Ned Goodman
Director

(*Signed*)
Derek H.L. Buntain
Director

EUROGAS INTERNATIONAL INC.
Statements of Operations and Comprehensive Loss
For the years ended December 31, 2009 and 2008

		2009		2008
REVENUE				
Interest and other (Notes 3 and 11)	$	123,543	$	140,563
EXPENSES				
General and administrative		2,002,475		659,964
Dividends on Series A Preference Shares (Note 8)		1,289,727		519,809
Depreciation and accretion		592,094		-
Interest expense		1,981		-
Foreign exchange loss (gain)		117,659		(238,856)
		4,003,936		940,917
LOSS FROM OPERATIONS		(3,880,393)		(800,354)
NET AND COMPREHENSIVE LOSS	$	(3,880,393)	$	(800,354)
NET LOSS PER COMMON SHARE				
Basic and diluted net loss per share (Note 10)	$	(0.12)	$	(0.03)

The accompanying notes are an integral part of these financial statements

EUROGAS INTERNATIONAL INC.
Statements of Changes in Shareholders' Deficiency
As at and for the years ended December 31, 2009 and 2008

	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2007	$ 10,013,039	$ -	$ (29,613,634)	$ (19,600,595)
Exchange of debt due to Eurogas Corporation (Note 9)	-	45,656,834	-	45,656,834
Reduction of stated capital	-	(23,519,873)	23,519,873	-
Exchange of common shares for Series A Preference Shares	(10,013,039)	(22,136,961)	-	(32,150,000)
Issuance of Common Shares	1	-	-	1
Net loss during the year ended December 31, 2008	-	-	(800,354)	(800,354)
Balance, December 31, 2008	1	-	(6,894,115)	(6,894,114)
Stock based compensation (Note 9)	-	9,287	-	9,287
Net loss during the year ended December 31, 2009	-	-	(3,880,393)	(3,880,393)
Balance, December 31, 2009	$ 1	$ 9,287	$ (10,774,508)	$ (10,765,220)

The accompanying notes are an integral part of these financial statements

EUROGAS INTERNATIONAL INC.
Statements of Cash Flows
For the years ended December 31, 2009 and 2008

		2009		2008
OPERATING ACTIVITIES				
Loss from operations	$	(3,880,393)	$	(800,354)
Non-cash items in operations				
Depreciation		505,468		-
Stock based compensation		9,287		-
Other		96,712		-
		(3,268,926)		(800,354)
Changes in non-cash working capital:				
Accounts receivable		(48,727)		158,619
Prepaids		(77,653)		-
Accounts payable and accrued liabilities		433,638		(414,405)
		(2,961,668)		(1,056,140)
FINANCING ACTIVITIES				
Changes in amounts due to Eurogas Corporation		7,987,282		1,110,534
Deposit with Eurogas Corporation		-		(8,722,623)
Non-cash changes in accrued dividends on Series A Preference Shares		1,289,727		519,809
		9,277,009		(7,092,280)
INVESTING ACTIVITIES				
Proceeds from farmout of interest in oil and gas properties		-		11,161,266
Net short term investments		(4,005,040)		-
Investment in oil and natural gas properties		(3,560,053)		(1,971,825)
		(7,565,093)		9,189,441
(DECREASE) INCREASE IN CASH		(1,249,752)		1,041,021
CASH, BEGINNING OF YEAR		1,435,653		394,632
CASH, END OF YEAR	$	185,901	$	1,435,653

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

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 recoverability of amounts expended by the Corporation on its Tunisian landholdings is dependent upon the discovery of economically recoverable reserves, obtaining exploitation concessions for those reserves identified, the ability to obtain necessary financing to complete development, and future profitable production or proceeds from disposition.

The Corporation's ability to continue its operations and 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. These audited financial statements have been prepared on the basis that the Corporation will, in the foreseeable future, be able to meet its commitments, continue operations, realize its assets and discharge its liabilities in the normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation
The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise specified.

Participation in Joint Ventures
Substantially all of the Corporation's exploration and evaluation activities are conducted jointly with other entities and accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

Use of Estimates
The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are made based on information available as at the date of issuance of these financial statements. Actual results could differ materially from those estimates.

Asset retirement obligations, depreciation, and impairment of oil and natural gas properties are based on estimates of future costs, the probability of discovery of economically viable reserves, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future years on the financial statements could be significant.

Foreign Currency Translation

Foreign currency denominated amounts are translated into Canadian dollars using average rates for the year for items included in the statements of operations, the rates in effect at the balance sheet dates for monetary assets and liabilities included in the balance sheets and historical rates for other items. Translation gains or losses are generally included in the determination of net earnings.

Financial Instruments

The Corporation's financial instruments consist of cash, short term investments, accounts receivable, prepaids, accounts payable and accrued liabilities and amounts payable to or receivable from Eurogas Corporation, the Corporation's parent ("Eurogas Corporation" or the "Parent"). Due to their short term nature, at December 31, 2009 and 2008, the fair value of all financial instruments approximated their book value.

Short Term Investments

The Corporation's short term investments are classified as "held for trading". Held for trading securities are measured at fair value at the balance sheet date. Both realized and unrealized gains and losses from changes in fair value are recorded in earnings.

Exploration and Evaluation Expenditures

The Corporation is currently in the exploratory and evaluation stage of its Tunisia land holdings and capitalizes all costs associated with these programs.

The Corporation follows the full-cost method of accounting for exploration and evaluation expenditures whereby all costs related to the exploration of oil and natural gas reserves, including asset retirement costs, are accumulated in separate geographic cost centres. Costs include lease acquisitions, geological and geophysical expenditures, carrying costs of non-productive properties, equipment costs and that portion of general and administrative expenses directly attributable to exploration and evaluation activities. Proceeds received by the Corporation for the disposal of properties or in farmout arrangements, are normally deducted from the full-cost pool without recognition of a gain or loss. When such a disposal would alter the depreciation rate of the pool by more than 20 percent, a gain or loss would be recognized.

Asset Retirement Obligation

The Corporation recognizes the estimated liability associated with future site reclamation costs in its financial statements. Costs are estimated in consultation with the Corporation's joint venture partners and are based on current costs and technology. The obligation is initially measured at fair value and subsequently adjusted for the accretion of any discount and any changes to the underlying estimated cash flows. The asset retirement obligation is capitalized to oil and natural gas properties. The Corporation reviews the obligation regularly such that revisions to the estimated timing of cash flows, discount rates and costs will result in an increase or decrease to the asset retirement obligation.

Impairment
The Corporation evaluates the carrying value of its oil and natural gas properties at least annually, or when events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the carrying value of the oil and natural gas properties is assessed not to be recoverable, an impairment loss is recognized.

Revenue Recognition
Interest income is recognized on an accrual basis.

Stock Based Compensation
The Corporation may issue stock based compensation awards to directors, employees and consultants. These arrangements may include stock options and other stock-based awards such as deferred share units.

The Corporation uses the fair value based method to account for stock based compensation. The value of stock based compensation, as at the date of grant, is recognized over the applicable vesting period as compensation expense, generally with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds received, together with the amount in contributed surplus, are added to common share capital.

Income Taxes
All international projects are in the pre-development stage and capitalized costs to date will be available for deduction for income tax purposes in their respective jurisdictions once commercial operations commence.

The Corporation follows the asset and liability method to provide for income taxes on all transactions recorded in the financial statements. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference and for unused losses, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

Per Share Information
Basic earnings (loss) per common share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share, if applicable, is calculated to reflect the dilutive effect of exercising outstanding share based awards by applying the treasury stock method.

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

3. SHORT TERM INVESTMENTS

Guaranteed Investment Certificates		Par Value	Weighted Average Interest Rate	Weighted Average days to Maturity
Balance, December 31, 2008	$	-	-	-
Transactions during the year ended December 31, 2009				
Acquisitions		4,500,000	0.40%	365
Redemptions		(500,000)	0.40%	n/a
Fair value adjustments		5,040	n/a	n/a
Balance, December 31, 2009	$	4,005,040	0.40%	259

At December 31, 2009, the Corporation held guaranteed investment certificates ("GICs") from a Canadian Schedule I Chartered Bank with a par value of $4,000,000. Unrealized appreciation in the fair value of short term investments at December 31, 2009 was $5,040 (2008 – nil).

4. OIL AND NATURAL GAS PROPERTIES

For the year ended December 31,		2009		2008
Opening balance	$	17,819,331	$	25,548,113
Transactions during the year				
Sfax Permit		1,880,051		2,618,665
Ras-El-Besh expenditures, net		(81,615)		241,994
Mobile offshore production unit "Ocean Patriot"		1,558,130		571,825
Farmout arrangements with Delta Hydrocarbons B.V.		-		(11,161,266)
Closing balance	$	21,175,897	$	17,819,331

The Corporation is engaged in exploration and evaluation of its landholdings offshore Tunisia, targeting large scale oil and natural gas reserves.

The Corporation entered into a joint operating agreement with Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), pursuant to which the Corporation and APEX agreed to undertake exploration, evaluation and extraction operations pursuant to the working interest awarded to them in the 1.0 million acre Sfax Offshore Permit (the "Sfax Permit"). APEX is the operating partner in the joint venture arrangement.

The Sfax Permit encompasses numerous prospects and leads, including the Salloum and Jawhara prospects as well as a development concession granted over the Ras-El-Besh prospect.

On January 19, 2009, the Tunisian Hydrocarbon Committee approved a two-year extension to the Sfax Permit, which will extend the primary term to December 8, 2011. As a condition of the extension, the Corporation committed to drill an additional exploration well on the Sfax Permit during the extension period.

During the year ended December 31, 2009, aggregate capital expenditures in respect of these activities amounted to $1,798,436 (December 31, 2008 – $2,860,659). Included in capitalized costs are certain general and administrative expenditures that are directly attributed to the Sfax Permit.

In addition, the Corporation holds a 45% interest in Innovative Production Services Ltd. ("IPS"). IPS holds title to 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. During the year ended December 31, 2009, the Corporation expended $1,558,130 (2008 - $571,825) to renovate and upgrade the MOPU. The Corporation is currently evaluating alternative usage of the MOPU, including the possible monetization of the asset through sale or lease arrangements.

Farmout Arrangements with Delta Hydrocarbons B.V.

On April 7, 2008, the Corporation and APEX entered into a farmout agreement with Delta Hydrocarbons B.V. ("Delta") whereby Delta acquired a 50% participation in the Sfax Permit, including the Ras-El-Besh development concession as well as a 50% interest in the MOPU, subject to a commitment to spend US$125 million, including a cash payment to the Corporation of $11,161,266.

In May 2009, Delta expressed a desire to exit from the farmout agreement. 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 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, to a maximum of US$20 million. Delta remains committed to fund 50% of any costs associated with certain asset retirement obligations until December 9, 2011.

Capital expenditures, during the period of the farmout agreement, were funded directly by Delta pursuant to its spending commitment. Subsequent to the reassignment of Delta's participating interest, the Corporation's participating interest in the Sfax Permit, the Ras-El-Besh development concession and IPS was 45% and APEX's participating interest was 55%. Accordingly, the Corporation is responsible for 45% of ongoing capital expenditures related to these activities.

Farmout Agreement with Anadarko Petroleum Corporation

During May 2006, the Corporation and APEX entered into a farmout option agreement with Anadarko Petroleum Corporation ("Anadarko"). Anadarko acquired a 520 km^2 3-D seismic survey for approximately $15,500,000 but did not elect to proceed under the terms of the agreement by April 1, 2008 and accordingly, forfeited all rights to conduct work or receive any interest in the farmout areas.

6. ASSET RETIREMENT OBLIGATION

	2009	2008
Balance, January 1,	$ 1,202,068	$ -
Initial estimate of discounted cash flows	-	1,202,068
Revisions to estimated cash flows	313,897	-
Accretion	86,626	-
Balance, December 31,	$ 1,602,591	$ 1,202,068

Upon completion of drilling and testing the REB-3 well within the Ras-El-Besh prospect and the associated development concession, the joint venture partners requested and received approval from the Tunisian government to temporarily suspend the well and release the drilling rig. The joint venture must either abandon or re-enter the REB-3 well within certain timeframes as outlined by the Tunisian government. The joint venture has estimated that the aggregate costs required in the event of abandonment of the REB-3 well is between US$6.5 million and US$10 million. As a result, during 2008, the Corporation recorded an asset retirement obligation in respect of its share of the potential obligation in the event of abandonment of the REB-3 well.

The key assumptions for the carrying amount of the asset retirement obligation included:

- Total estimated undiscounted cash flows at December 31, 2009 of $1,790,978 (2008 - $1,419,964);
- Expected settlement in fiscal 2011; and
- Credit adjusted risk free rate at which the estimated payments have been discounted of 5.7%.

7. INCOME TAXES

At December 31, 2009, the Corporation had operating loss carry forwards of $3,689,677 (2008 - $1,821,069). A summary of the operating loss carry forwards by year of expiry is as follows:

Year of Expiry:	
2010	$ 4,946
2011	-
2012	110,960
2013	4,825
2014	219,554
Thereafter	3,349,392
	$ 3,689,677

A valuation allowance has been recorded in respect of the loss carry forwards as management believes it is more likely than not that the future tax asset will not be realized.

The Company's income tax provision differs from the amount that would be computed by applying the Barbados statutory income tax rate as a result of the following:

	2009	2008
Anticipated income tax recovery based on Barbados statutory income tax rate of 2.5% (2008 - 2.5%)	$ (97,010)	$ (20,009)
Non deductible expenses	32,243	12,995
Valuation allowance	64,767	7,014
Income tax provision	**$ -**	**$ -**

8. 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

The Series A Preference Shares 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 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 the holder or retracted at the option of the corporation at any time at a price equal to their face value of $1 per Series A Preference Share. 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 and it has also agreed to accept the deferral of the payment of cumulative dividends thereon until December 2011.

The Series A Preference Shares are non-voting except in the event the Corporation fails to pay the cumulative 4% dividend for eight quarters. Thereafter, but only so long as any dividends on the Series A Preference Shares remain in arrears, the holder of the Series A Preference Shares shall be entitled, voting exclusively and separately and as a series, to elect a majority of the members of the Board of Directors of the Corporation.

During the year ended December 31, 2009, the Corporation recognized an expense of $1,289,727 (December 31, 2008 - $519,809) in net earnings, representing the dividends accrued on the Series A Preference Shares.

9. SHARE CAPITAL

Common Shares Issued and Outstanding

The Corporation is authorized to issue an unlimited number of common shares.

	Number of Shares		Capital		Contributed Surplus
Outstanding, December 31, 2007	100	$	10,013,039	$	-
Reorganization of share capital					
Exchange of debt due to Eurogas Corporation	-		-		45,656,834
Reduction in stated capital	-		-		(23,519,873)
Exchange of common shares for Series A Preference Shares	(100)		(10,013,039)		(22,136,961)
Issuance of common shares	31,143,635		1		-
Outstanding, December 31, 2008	31,143,635	$	1	$	-
Transactions during the year ended December 31, 2009					
Stock based compensation	-		-		9,287
Outstanding, December 31, 2009	31,143,635	$	1	$	9,287

On March 31, 2009, the common shares of the Corporation were listed on the Canadian National Stock Exchange ("CNSX") under the symbol "EI".

Reorganization of Share Capital Completed in the Prior Year

The Corporation was a wholly-owned subsidiary of Eurogas Corporation. On August 5, 2008, and as part of a series of transactions, the Corporation reorganized its share capital by exchanging all of the then existing outstanding common shares held by Eurogas Corporation, for (i) 32,150,000 Series A Preference Shares having an aggregate par value equal to the fair value of the Corporation at that date, and (ii) 31,143,635 newly created common shares having an aggregate value of $1.00. The newly created common shares were then distributed, by way of a dividend-in-kind, to the holders of common shares of Eurogas Corporation, such that each holder of common shares of Eurogas Corporation received one common share of the Corporation for each five common shares of Eurogas Corporation held on the record date.

As part of the reorganization transaction and before distribution of the dividend-in-kind, Eurogas Corporation agreed to exchange $45,656,834 of amounts owed to it by the Corporation, for additional equity in the Corporation. Concurrently, the Corporation approved a resolution to reduce the stated capital of the then existing common shares of the Corporation by $23,519,873 and to reduce the deficit of the Corporation by an equivalent amount.

Stock Based Incentive Arrangements

The Corporation has established certain stock based compensation arrangements, including a share option plan and a deferred share unit plan. The aggregate number of common shares that may be issued from treasury under these arrangements may not exceed 3,114,363 and, during any 12-month period, the number of shares issuable to any one person under these arrangements may not exceed 5% of the total number of common shares outstanding. At December 31, 2009, the Corporation had not issued any shares from treasury pursuant to these arrangements.

Share Option Plan

The Corporation has adopted a share option plan pursuant to which directors, officers, employees and consultants may be granted options to purchase common shares of the Corporation. The exercise price of each option shall be established at the grant date by the directors of the Corporation and in all cases shall not be less than the closing price of the common shares on the CNSX on the trading day immediately preceding the grant date.

On June 15, 2009, the Board of Directors of the Corporation approved the issuance of 600,000 stock options at an exercise price of $0.10 per option, to directors of the Corporation. One third of the options

vested immediately. The remaining options vest as to 50% on each of the first and second anniversary date of the granting of the option award. The options expire on June 15, 2014.

The fair value of the options granted has been estimated at $0.03 per share using an option-pricing model. The following assumptions were used to determine the fair value of the options on the grant date:

Risk-free interest rate	1.5%
Expected dividend yield	-
Expected volatility	100%
Option term	3 years

At December 31, 2009, the Corporation had 600,000 outstanding options with a weighted average exercise price of $0.10 per option, of which 199,998 options had met the vesting requirements and were available for exercise. The options have a weighted average remaining contractual life of 4.46 years.

The Corporation has recognized stock based compensation expense of $9,287 in respect of these stock option awards, with a corresponding increase in contributed surplus.

Deferred Share Unit Plan
The Corporation has established a deferred share unit plan ("DSUP") pursuant to which directors, officers, employees and consultants of the Corporation or any affiliate of the Corporation may be granted deferred share units. The Compensation Committee of the Board of Directors administers the DSUP, which is intended to provide participants with long-term incentive tied to the long-term performance of the Corporation's common shares. Discretionary awards under the DSUP will be based on certain criteria, including services performed or to be performed. There are currently no units granted to eligible participants under the DSUP.

10. NET LOSS PER SHARE

For the year ended December 31,	2009	2008
Net loss attributable to shareholders	$ (3,880,393)	$ (800,354)
Weighted average number of common shares outstanding	31,143,635	31,143,635
Basic and diluted net loss per share	$ (0.12)	$ (0.03)

In calculating the weighted average number of shares outstanding for purposes of determining the net loss per share for the year ended December 31, 2008, the Corporation assumed that the corporate reorganization outlined in Note 9 was completed on January 1, 2008.

11. RELATED PARTY TRANSACTIONS

The $150,882 (2008 - $886,223) payable to Eurogas Corporation is due on demand, is unsecured and is non-interest bearing.

During the year, the Corporation redeemed its deposit with Eurogas Corporation for $8,722,623 plus accrued and unpaid interest. Prior to redemption, the deposit with Eurogas Corporation earned interest

at normal market rates. Interest earned on the deposit with Eurogas Corporation for the year ended December 31, 2009 was $118,840 (December 31, 2008 - $118,519). The Corporation applied the proceeds from the redemption of the deposit with Eurogas Corporation to repay amounts otherwise owing to Eurogas Corporation, with the residual balance used to purchase a short term investment as outlined in Note 3.

During the first quarter of 2009, the Corporation entered into a services arrangement with Dundee Resources Limited, a wholly owned subsidiary of Dundee Corporation. Dundee Corporation is the principal shareholder of the Corporation. The services agreement 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 year, the Corporation incurred costs of $256,528 (December 31, 2008 - $nil), in respect of these arrangements.

12. COMMITMENTS

During the year, the Tunisian Hydrocarbon Committee approved a two-year extension on the Sfax Permit, which will extend the primary term to December 8, 2011. As a condition to the extension, the Corporation committed to drilling one new exploration well during the extension period. The Corporation has not completed its estimate of the costs to meet this commitment, as the costs are partially contingent on the selection of the prospect and location within the Sfax Permit.

13. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 "*Financial Instruments – Disclosures*" requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of financial instruments carried on the balance sheet at fair value. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At December 31, 2009, the Corporation's investment in GICs was the only financial instrument carried on the balance sheet at fair value. The investment is short term in nature and is accordingly valued at cost plus accrued interest, which approximates fair value. The Corporation has classified the determination of fair value of the investment as level 2, as the valuation methodology used by the Corporation includes an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Risk Management

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The following discussion reviews material financial risks, quantifies certain of the associated exposures, and explains how these risks and the Corporation's capital are managed.

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

Fair Value Risk
Fair value risk is the potential for loss from an adverse movement, excluding movements relating to changes in interest rates and foreign exchange currency rates, because of changes in market prices. The Corporation does not have any significant exposure to fair value risk.

Interest Rate Risk
Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation incurs interest rate risk in its cash and short term investments. In general, for every 50 basis point change in market interest rates, net earnings before taxes for the year ended December 31, 2009 would change by approximately $6,300.

Currency Risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation periodically has accounts receivable and accounts payable denominated in foreign currencies, primarily in Euros and US dollars. The Corporation may also have, from time to time, cash balances that are denominated in foreign currencies to facilitate foreign currency transactions. At December 31, 2009, the Corporation's exposure to currency risk was minimal.

Credit Risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash held with banks and amounts receivable. The maximum exposure to credit risk is equal to the carrying value of these financial instruments.

Liquidity Risk
Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. The Corporation's ability to develop its properties and recover their carrying values is dependent on management's ability to raise required funding through debt, joint venture opportunities or equity issuances.

At December 31, 2009, the Corporation had cash of $185,901 and short term investments of $4,005,040, which is sufficient to meet its current obligations and commitments as they become due.

The Corporation also has Series A Preference Shares that are redeemable at the Corporation's option and retractable at the option of the holder. These Preference Shares have been appropriately classified as a financial liability and therefore are subject to liquidity risk. While there are no restrictions on either the redemption or retraction of these Preference Shares, the holder has informed the Corporation that it does not intend to exercise its right of redemption of the Series A Preference Shares prior to December 2011.

The holder of the Series A Preference Shares are entitled to receive, as and when declared by the Board of Directors, a fixed cumulative cash dividend equal to 4% of the redemption price of the Series A Preference Shares.

Capital Management

The Corporation defines the capital that it manages as its working capital. The Corporation's objectives when managing capital are to ensure that it will have sufficient financial capacity to fund exploration activities of its oil and gas assets. The Corporation regularly monitors its available capital and as necessary, adjusts to changing economic circumstances and the risk characteristics of the underlying assets. In order to maintain or adjust capital requirements, the Corporation may consider the issuance of new shares, the entry into joint venture arrangements or farmout agreements, or engage in debt financing.

14. CHANGES IN ACCOUNTING POLICIES ADOPTED IN 2009

Asset Recognition including Goodwill and Intangible Assets

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

Financial Instruments – Disclosures

Beginning with fiscal 2009, the Corporation adopted the amendments to CICA Handbook Section 3862, "*Financial Instruments – Disclosures*". The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. Comparative information is not required in the year of adoption. The impact of these amendments is disclosed in Note 13 to these financial statements.

Impairment of Financial Assets

In August 2009, the Accounting Standards Board ("AcSB") amended CICA Handbook Section 3855, "*Financial Instruments – Recognition and Measurement*", to achieve consistency with international standards on impairment of debt securities. The amendments changed the definition of a loan such that debt securities not quoted in an active market could be classified as a loan and measured at amortized cost. Impairment of debt securities classified as loans will be assessed and recorded using the incurred credit loss model of CICA Handbook Section 3025, *"Impaired Loans"*. Debt securities that are classified as available-for-sale securities continue to be written down to their fair value through earnings when the impairment is considered other-than-temporary. However, the impairment loss can be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The Corporation adopted these amendments for fiscal 2009 and the adoption of this new guidance had no impact on the reported results of the Corporation.

15. FUTURE ACCOUNTING DEVELOPMENTS

Future Accounting Changes under Canadian GAAP

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

CICA Handbook Section 1582 establishes standards for the accounting of a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "*Business Combinations*" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standard 27, "*Consolidated and Separate Financial Statements*" (January 2008).

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

Implementation of International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. Although IFRS uses a conceptual framework similar to Canadian GAAP, there may be significant differences in the areas of recognition, measurement and disclosure that could materially impact the Corporation's financial statements.

The implementation of IFRS will apply to the Corporation's interim and annual financial statements beginning on January 1, 2011, including the restatement of comparative amounts for 2010. The Corporation has initiated an assessment of the impact of IFRS adoption on its business activities, processes and accounting policies. Once completed, the Corporation will implement a communication strategy, as appropriate, aimed at all stakeholders, including employees, rating agencies and shareholders, to assist in their understanding of its transition to IFRS.