# QUARTERLY REPORT

June 2009

## HIGHLIGHTS

### Gazonor, France

- Gas sales of 81,031 MWh (291,711 GJ) for the quarter.
- Gas prices for the quarter of €15.35 per MWh (€4.23 per GJ).

### Electricity Development Project

- Pre-feasibility study for electricity development project completed demonstrating strong economics.
- Base case of up to a 20MW installation, plus continued gas to grid sales.
- Project NPV €67.9 million to €106.9 million (A$120 million to A$189 million).
- Base case accesses 38% of current 2P reserves or 14% of 3P, hence expansion possibilities.
- Environmental attributes represented by approximately 10 million tonnes of carbon dioxide equivalent mitigated over 10 years.
- Third party discussions in progress for project development.

### Corporate

- Cash position at end of quarter €2.3 million (A$4.1 million)

**Company Information**

**Board of Directors**
Anthony J McClure (Managing Director)
Alan J Flavelle (Executive Director)
Terence V Willsteed (Non Executive Director)
Gauthier De Potter (Non Executive Director)

**Company Secretary**
Mark E Pitts

| | |
|---|---|
| **ASX Code:** | **EPG** |
| **Shares on Issue:** | 199,155,662 |
| **Conv. Notes[1]:** | 48,500,000 |
| **Options:** | 9,500,000 |

*[1] 24,250 notes converting to 48,500,000 fully paid ordinary shares subject to customary adjustment to provisions. Expiry end Dec 2010.*


Figure 1: European Gas Limited Project Areas


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# GAZONOR

European Gas holds a 100% interest in the Gazonor project in Northern France. The Gazonor assets include the gas exploitation rights over the Poissonnière and Désirée permits, comprising a total area of 767 square kilometres ($km^2$) including the Poissonnière extension (granted January 2009). An additional 1,352 $km^2$ is under application for exploration permits (see Figure 2).

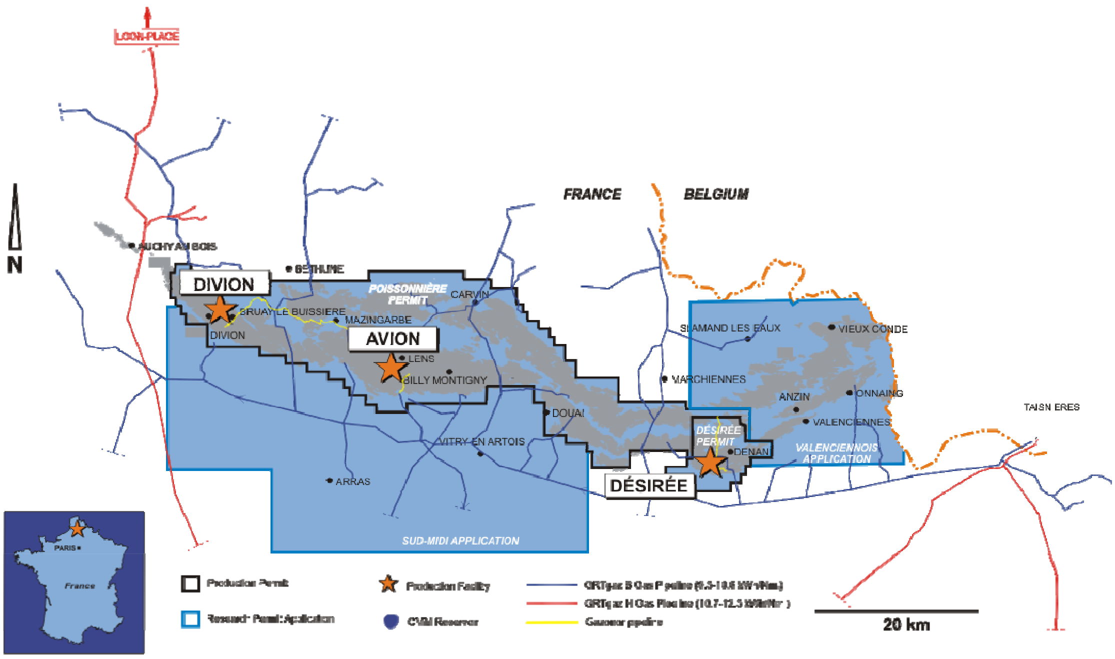


Figure 2: Gazonor Project Location Map

## Gas Sales

Detail of gas sales for the quarter are summarised in the following table.

| Sales | | Average Price Received | |
|---|---|---|---|
| MWh | GJ | €/MWh | €/GJ |
| 81,031 | 291,711 | 15.35 | 4.25 |

**Gas sales of 81,031 MWh (291,711 GJ) for the quarter**

Gas sales for the quarter were decreased compared to the March quarter 2009 (gas sales 117,167 MWh (421,801 GJ)) due to typical seasonal variations of the summer months where less gas can be injected into the national grid.

Gas sales for the quarter were comparably higher than the June quarter 2008 (gas sales 59,100 MWh (212,760 GJ)).

Sale price for the June quarter averaged approximately €15.35 per MWh or €4.25 per GJ (approximately A$26.50 per MWh or A$7.35 per GJ).

**Average sale price of €15.35 per MWh or €4.25 per GJ**

Revenues for the quarter totalled €1.2 million (A$2.1 million).

## Gas Price Outlook

For the September quarter of 2009, sales prices will increase and the Company currently estimates that pricing will average around €16.50 per MWh or €4.60 per GJ (approximately A$28.50 per MWh or A$7.90 per GJ). The Company's gas is sold under contracts with a pricing formula which smooths market volatility.

## Electricity Development Project

**Pre-feasibility study for electricity development project completed demonstrating strong economics**

**Base case of up to a 20MW installation, plus continued gas to grid sales**

During the quarter, the Company announced the results of the Electricity Development Project Pre-Feasibility Study ("the Study") for the installation of electricity production facilities at four sites within the Gazonor Project, Nord Pas de Calais, northern France. The Study was conducted internally and through specific consultants with the view of converting existing production sites at Gazonor to electricity generation to expand and optimise productivity.

The Study determined that gas production at Gazonor could be substantially increased through the installation of electricity production facilities at two sites at Avion and one each at Divion and Désirée. It determined strong economies with the base case development of up to 20 megawatts (MW), and the potential development also includes the continuation of gas sales into the national pipeline network. The Study took into consideration pipeline restrictions for the substantial increased injection of CMM.

The pre-feasibility works demonstrates the potential of increase of annual gas production from 300 Gigawatt hours (GWh) per year to over 500 GWh per year at the Avion site. It has been determined that the reservoir has the potential to produce at these levels for at least 10 years before moving to decline.

***Avion***

The Study examined a range of projects from 4.8MW to 24MW installations for Avion. The preferred case involves the installation of two 4.8MW facilities, one at the Lens 5 site and the other at the 7bis de Liévin site. The case also involves maintaining gas production and sales from the Lens 5 site for at least the short term. The incremental expansion of electricity facilities up to 24MW will be considered after the initial project developments.

***Divion***

The Study examined the re-opening of the gas production facilities with sales of gas to local customers and also the installation of 4.8MW of electricity generation capability. The possibility of running both projects is considered.

***Désirée***

The Study has examined the opening of a northern production area feeding into the Désirée site via the Company's local pipeline. This allows for the installation of 4.8MW of electricity generation capacity. The Study also examined several processes for upgrading the quality of the gas, potentially providing a premium product to pipeline specification. Further investigations are required.

*Project Economics*

| Base Case Initial Electricity Development<br>Gas to Grid plus 4 X 4.8MW installations | | |
|---|---|---|
| **Gas Production** | 140 | $Mm^3$ per year |
| methane content | 78 | $Mm^3$ per year |
| methane content | 2.75 | Bcf per year |
| **Gas Sales** | 26 | $Mm^3$ per year |
| | 0.90 | Bcf per year |
| **Electricity Sales** | 84 | GWh per year |
| **Capital Costs** | €16.5m | |
| **Net Present Value*** | €67.9m to €106.9m | |
| **Internal Rate of Return*** | 49% to 70% | |

* *Variance gas pricing €21 to €28 per MWh (€5.80 to €7.80 per mcf); Variance electricity pricing €75 to €100 per MWh.*

**Project NPV €67.9 million to €106.9 million (A$120 million to A$189 million)**

The Base Case assessment is at a pre-feasibility level and excludes any assumptions on lease options of capital equipment and assumes full price new equipment installation.

*Development*

The Company has commenced further definition and optimisation works for the project including permitting process planning. Importantly, the project is likely to be conditional on the Company being successful in achieving an electricity feed-in tariff that is enjoyed by other greenhouse gas mitigation projects in France. Typically, an electricity feed-in tariff is a higher than baseload pricing structure that is afforded to gas projects which provide substantial environmental benefits.

**Environmental attributes represented by approximately 10 million tonnes of carbon dioxide equivalent mitigated over 10 years**

The development provides for substantial environmental benefits with the mitigation of approximately 10 million tonnes of carbon dioxide equivalent over the first 10 years of production.

Part of the optimisation process is evaluating other potential production sites, which include coal mine methane monitoring stations. These sites may be developed relatively rapidly to deliver additional gas directly to local markets, and are being assessed and approvals are being sought.

**Third party discussions in progress for project development**

Subject to the completion of the above, from a decision to proceed and inception of the projects, initial electricity production could be in place within 12 months. The Company is in discussion with several industry and finance groups for the development of the projects.

*Potential Expansion*

The Base Case assessment (comprising of a four site development) is expandable. The Study includes the drawdown over a 20 year period of approximately 38% of the current 2P reserve (or 14% of the 3P reserve). The Company continues to examine further potential development sites at Gazonor which may allow the development of new sites and/or incremental production increases at the initial development sites. The purpose of the continued project investigation program is to optimise the drawdown of the current reserve base.

**Base case accesses 38% of current 2P reserves or 14% of 3P, hence expansion possibilities**

## Gas Quality Improvement

Investigations into the methodology for potentially increasing the quality (energy content per unit volume) and hence the price of the Company's CMM sales gas continues.

The investigations suggest that the reduction of $CO_2$ to bring the produced gas up to premium specification levels may be technically and commercially achieved using either amine or membrane $CO_2$ removal systems. Both types of systems have been in operation in Australia for over 10 years with a proven operational record. Nitrogen removal processes also continue to be evaluated.

## Exploration

Exploration works at Gazonor continued to concentrate on data compilation and geological interpretation at a regional level targeting unconventional reservoirs including CBM.

This work has directed geological analysis of the Bruay area in the west of the Poissonnière production permit. Structural data from existing geological maps and sections together with seam thickness data has been collated and prepared in digital form for input to the GoCad system. A compilation of gas content, coal quality and coal thickness data covering the region has also been completed.

The above work is in preparation for more definitive CBM volumetric evaluations within the Bruay study area and target generation for drilling.

## LORRAINE

## Eastern France

European Gas holds a 100% interest in two permits, covering a major part of the Lorraine Basin. In addition, the Company has recently submitted an application for an additional 360 km$^2$ (Lorraine Nord). (see Figure 3.)

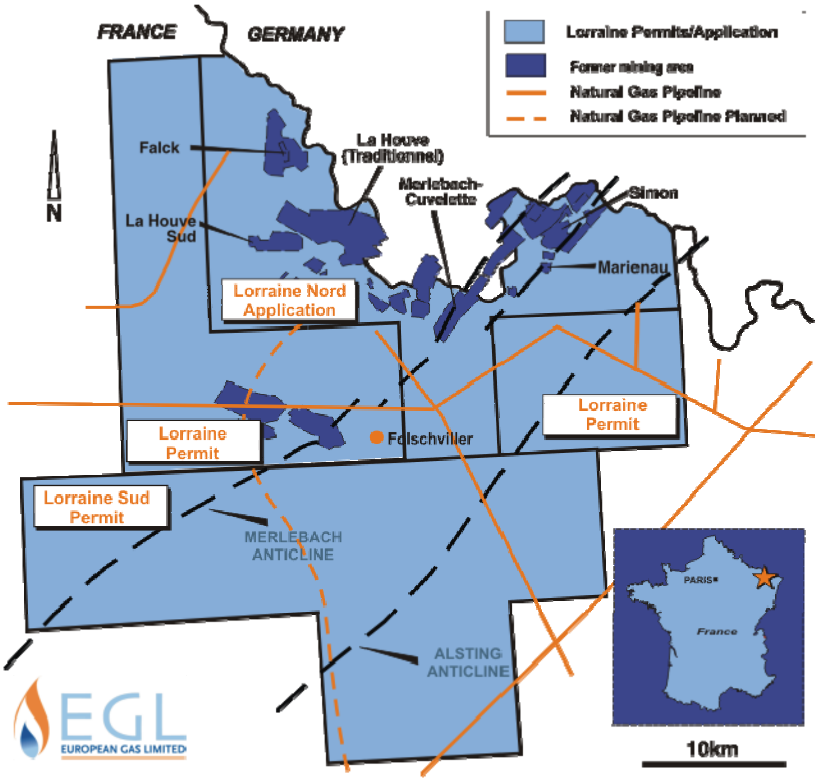


Figure 3: Lorraine Project Location Map

During the December 2008 quarter the drilling of the Folschviller 2 appraisal (or production test) well was completed. The site is 850 metres east of the town of Folschviller and immediately adjacent to Company's Folschviller St 1 stratigraphic well.

Two laterals and two sidetracks were completed for a total of 433 metres of coal and a further 367 metres of gassy sediments.

The lower lateral is temporarily shut in below a packer. Testing on the lower lateral was deferred pending the availability of a workover rig. Planning is underway for the completion of the program potentially in the second half calendar 2009.

Also during the quarter, the Lorraine exploration team has continued with target generation for the eastern project area and in particular the Alsting Anticline and re-worked project evaluation models in the lead up to potential drilling continuation in 2010.

## LONS-LE-SAUNIER Central France

European Gas holds a 100% interest in the Lons-le-Saunier permit.

The re-interpretation of seismic data and structure for the permit was largely concluded during the quarter. This work in conjunction with a detailed technical review of the structural model has enabled preliminary definition of future seismic requirements for the permit area.

As previously reported, the Company has carried out a target generation program identifying sites to drill test the gassy coals in the basin. This analysis has identified many areas where thick gassy coals may be tested. One site south of the Lons-le-Saunier township has been selected for initial drilling. The target coals are at depths less than 1000 metres below the surface. In addition, during the quarter, the study has further delineated targets with particular emphasis on conventional gas plays which the Company is continuing to pursue.

The timing of the drill test is subject to completion of permitting, financing and the mobilisation of an appropriate drilling rig.

## GARDANNE Southern France

European Gas holds a 100% interest in the Gardanne permit.

One site has been selected for exploration drilling at Gardanne and is planned to be completed subject to rig availability and financing.

## SAINT ETIENNE Central France

European Gas holds a 100% interest in the St Etienne permit.

No work was conducted during the quarter.

## BENELUX JOINT VENTURE

European Gas holds a 50% interest in a joint venture company created for the purposes of securing title, exploring, developing, extraction and marketing of hydrocarbons including CBM, CMM and conventional oil and gas within Belgium, the Netherlands and Luxembourg ("European Gas Benelux S.A.").

European Gas Benelux S.A. has applied to the Wallonia Government for a hydrocarbon permit "Hainaut" covering 443 km$^2$. The application covers the immediate southern extension of the Wallonia Coal Basin and historical coal mining region. The Basin is the eastern extension of the Nord Pas de Calais Basin in France in which the Company's Gazonor project is situated. A production permit application has also been submitted for "Anderlues et Peronnes" which covers 40 km$^2$.

The principal target for European Gas Benelux S.A. is CBM and CMM.

## SOUTHERN TUSCANY Italy

Three permit areas covering a total of 1,553 $km^2$ have been granted and preliminary environmental impact studies have been submitted to the Regione Toscana. Initial work will commence upon formal notification that the reports have been accepted.

## CANNING BASIN Western Australia

European Gas holds a Net Well Head Royalty (2% to 3%) over 30,171 $km^2$ in the Canning Basin, Western Australia.

## FINANCIALS APPENDIX 5B

At 30 June 2009, the Company had available funds of approximately €2.3 million (A$4.1 million).

The attached Appendix 5B highlights the quarter's cash activities and other relevant financial information.

# ABOUT EUROPEAN GAS LIMITED

European Gas Limited (ABN 75 075 760 655) is a hydrocarbon explorer/developer with projects in western Europe. The strategy of the Company is to develop Coal Bed Methane and Coal Mine Methane projects, in particular, in France where the Company with major holdings under licence holds a significant competitive advantage.

The western European natural gas market is substantial with advanced infrastructure, including extensive pipeline networks and a free and open market.

The Company also holds hydrocarbon royalties in the Canning Basin of Western Australia.

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Investor Relations/Business Development Manager

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or refer to the European Gas Limited web-site: www.europeangas.fr

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## Compliance Statement

The technical information quoted in this announcement has been compiled by Mr Alan Flavelle and Mr Rod Bresnehan and geoscientists under their supervision. Mr Flavelle is a Fellow of the Australasian Institute of Mining and Metallurgy and is a member of the Society of Petroleum Engineers. Mr Bresnehan is Technical Advisor to European Gas and is Chairman of the Australian Council of the Society of Petroleum Engineers. Mr Flavelle and Mr Bresnehan have consented to the inclusion in this report of the matters based on the information in the form and context in which it appears.

*Rule 5.3*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**EUROPEAN GAS LIMITED**

| ABN | Quarter ended ("current quarter") |
|---|---|
| **75 075 760 655** | **30 June 2009** |

## Consolidated statement of cash flows

| | **Cash flows related to operating activities** | | Current quarter 3 months €'000 | Year to date 12 months €'000 |
|---|---|---|---|---|
| 1.1 | Receipts from product sales and related debtors | | 1,839 | 8,899 |
| 1.2 | Payments for | (a) exploration and evaluation | (351) | (6,416) |
| | | (b) development | - | - |
| | | (c) production | (1,109) | (4,893) |
| | | (d) administration | (596) | (2,370) |
| | | (e) other corporate costs | (305) | (305) |
| 1.3 | Dividends received | | - | - |
| 1.4 | Interest and other items of a similar nature received | | - | 49 |
| 1.5 | Interest and other costs of finance paid | | (272) | (1,111) |
| 1.6 | Income taxes paid | | (46) | (407) |
| 1.7 | Cashcalls – exploration & evaluation | | - | - |
| | **Net Operating Cash Flows** | | **(840)** | **(6,554)** |
| | **Cash flows related to investing activities** | | | |
| 1.8 | Payment for purchases of: | (a) prospects | - | - |
| | | (b) equity investments | - | - |
| | | (c) other fixed assets | - | (79) |
| 1.9 | Proceeds from sale of: | (a)prospects | - | - |
| | | (b)equity investments | 24 | 153 |
| | | (c)other fixed assets | | - |
| 1.10 | Loans to other entities | | - | - |
| 1.11 | Cash assets acquired | | - | - |
| 1.12 | Other | | - | - |
| | **Net investing cash flows** | | **24** | **74** |
| 1.13 | Total operating and investing cash flows (carried forward) | | **(816)** | **(6,481)** |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | **(816)** | **(6,481)** |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Convertible notes ( *refer Note 6*) | - | - |
| 1.20 | Other – Heritage shareholders unclaimed cash – held in trust | - | - |
| | **Net financing cash flows** | **-** | **-** |
| | **Net increase (decrease) in cash held** | **(816)** | **(6,481)** |
| 1.21 | Cash at beginning of quarter/year to date | 3,151 | 8,816 |
| 1.22 | Exchange rate adjustments to item 1.21 | 0 | 0 |
| 1.23 | **Cash at end of quarter** | **2,335** | **2,335** |

## Payments to directors of the entity and associates of the directors
## Payments to related entities of the entity and associates of the related entities

| | | Current quarter €'000 |
|---|---|---|
| 1.24 | Aggregate amount of payments to the parties included in item 1.2 | 114 |
| 1.25 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.26 Explanation necessary for an understanding of the transactions

| |
|---|
| Director's remuneration |

## Non-cash financing and investing activities

2.1

| |
|---|
| |

2.2

| |
|---|
| |

## Financing facilities available

*Add notes as necessary for an understanding of the position.*

| | | Amount available €'000 | Amount used €'000 |
|---|---|---|---|
| 3.1 | Loan facilities | - | - |
| 3.2 | Credit standby arrangements | - | - |

## Estimated cash outflows for next quarter

| | | €'000 |
|---|---|---|
| 4.1 | Exploration and evaluation | 250 |
| 4.2 | Development | - |
| | **Total** | **250** |

## Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter €'000 | Previous quarter €'000 |
|---|---|---|---|
| 5.1 | Cash on hand and at bank | 1,335 | 2,151 |
| 5.2 | Deposits at call | 1,000 | 1,000 |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.22) (*see note 6*) | **2,335** | **3,151** |

## Changes in interests in mining tenements

| | | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---|---|---|---|---|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | | | | |
| 6.2 | Interests in mining tenements acquired or increased | | | | |

+ See chapter 19 for defined terms.

## Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

| | | Total number on issue | Total Number quoted | Issue price per security (see note 3) (AU$) | Amount paid up per security (see note 3) (AU$) |
|---|---|---|---|---|---|
| 7.1 | **Preference +securities** *(description)* | | | | |
| 7.2 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 199,155,662 | 199,155,662 | - | - |
| 7.4 | Changes during quarter<br>(a) Increases through issues<br>Ordinary shares | | | | |
| 7.5 | **+Convertible debt securities**<br>Tranche A<br>Tranche B<br>(*refer to note 6)* | <br><br>14,500 notes<br>9,750 notes | | | |
| 7.6 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted | | | | |
| 7.7 | **Unquoted options**<br>Series B options<br>Employee /<br>Contractor options | <u>*Number*</u><br>4,000,000<br>2,750,000<br>2,750,000 | <u>*Quoted*</u><br>Nil<br>Nil<br>Nil | <u>*Exercise price*</u><br>$1.50<br>$1.50<br>$2.50 | <u>*Expiry date*</u><br>28/11/2010<br>15/04/2010<br>15/04/2012 |
| 7.8 | Issued during quarter | <u>*Number*</u> | <u>*Quoted*</u> | <u>*Exercise price*</u> | <u>*Expiry date*</u> |
| 7.9 | Exercised during quarter | <u>*Number*</u> | <u>*Quoted*</u> | <u>*Exercise price*</u> | <u>*Expiry date*</u> |
| 7.10 | Lapsed during quarter<br>Employee options | <u>*Number*</u><br>750,000<br>750,000 | <u>*Quoted*</u><br>Nil<br>Nil | <u>*Exercise price*</u><br>$1.50<br>$2.50 | <u>*Expiry date*</u><br>15/04/2010<br>15/04/2012 |
| 7.11 | **Debentures** *(totals only)* | | | | |
| 7.12 | **Unsecured notes** *(totals only)* | | | | |

+ See chapter 19 for defined terms.

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Anthony McClure – Managing Director
........................................................... Date 31 July 2009

## Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB6 Exploration for and Evaluation of Mineral Resources* and *AASB107: Cash Flow Statements* apply to this report..

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

**6** **Convertible Notes –** The Convertible Notes have a face value of €1,500, carry a coupon rate of 5% and mature on 31 December 2010 (if not converted beforehand). Upon conversion, Tranche A and Tranch B would convert to 48,500,000 fully paid ordinary shares in the Company subject to the customary adjustments provisions.

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+ See chapter 19 for defined terms.