NEWS RELEASE

23 December 2008

COMPANY UPDATE

HIGHLIGHTS

- **Gas production performing to budget with sales prices well above forecast.**
- **Winter cycle cashflows continue to be strong with network expansion complete.**
- **Production from Avion for December averages 1400 MWh per day (5040 GJ per day).**
- **Sales prices from Avion average €29.00 per MWh or €8.00 per GJ (A$16.45 per GJ).**
- **Further expansion planning of production at Gazonor advanced.**
- **Cost reduction program in place.**

GENERAL

European Gas Limited ("European Gas" or "Company") is pleased to announce an update to the Company's activities.

With the current economic environment the Company has completed selected detailed reviews of its activities.

Of prime importance is the continued profitability of the Company's production operations and the ongoing preparation for future expansion of current facilities and future developments.

Part of the review processes has included a substantial curtailment of operational, exploration and administration costs.

Commenting on the current outlook, Managing Director Anthony McClure was quoted "We consider that we are in an advantageous position in relation to our peers in this challenging economic environment. Although we have relatively small gas production, with continued strong gas prices in Europe, production is highly profitable. This bodes well for our ongoing cash position as we move to increasing production in 2009. In addition, we continue to optimise our position and business model to take advantage of our substantial project and resource position in Europe."

GAZONOR PRODUCTION

The Gazonor gas production asset in northern France is currently performing to budget in terms of production, and sales prices continue to be well above forecast. Production from Avion for December is currently averaging 1400 Megawatt hours ("MWh") per day or 5040 Gigajoules ("GJ").

Revenues from the operations are currently averaging approximately €900,000 per month (approximately A$1,800,000 per month) for the December quarter.

Sales prices for the December quarter will average approximately €29.00 per MWh or €8.00 per GJ (approximately A$59.00 per MWh or A$16.45 per GJ). This is the highest quarterly sales prices ever achieved for Gazonor.

For the March quarter of 2009, sales prices will decline and the Company currently estimates that pricing will average approximately €22.50 per MWh or €6.25 per GJ (approximately A$45.90 per MWh or A$12.75 per GJ).

According to the Company's sales contracts, sales prices are fixed periodically providing a smoothing effect over spot market volatility.

GAZONOR CURRENT EXPANSION AND PRE-FEASIBILITY WORKS

The Company continues its programs for the expansion of production at Gazonor. The current works and pre-feasibility works concentrate on two principal areas of development: expansion of gas production and sales; and the potential installation of electricity generation facilities. These works at Gazonor are designed to expand and optimise productivity.

Current Expansion of Gas Production

Expansion and adjustments to the local network have been completed by the network operator (GRTgaz) allowing for the greater injection of gas from Gazonor. Since completion of the works in November, and coupled with the cold European winter, Gazonor is running at 1400 MWh per day (5040 GJ).

Further Gas Production Expansion and Electricity Generation

The Company continues its pre-feasibility works for the expansion of gas production with the potential of increasing 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.

The current production model demonstrates production over a 20 year period totaling 970 million cubic metres (CH_4 content) (34 billion cubic feet or 36 petajoules) or approximately 26% of Gazonor's 2P reserves.

The principal objective of the pre-feasibility works is to optimise sales of gas and/or gas and electricity. The studies involve the analysis of several business streams including the expansion of gas sales, partial conversion to electricity generation and the movement of the entire Avion facility to electricity generation with the installation of capacity of up to 24 Megawatts.

Although the Company is assessing a range of alternatives, a primary interest is to minimise capital expenditure through leasing options of principal equipment. Other options are also being assessed.

The Company is also progressing planning activities for the further development of other sites at Gazonor including Divion and Désirée.

In addition, other potential production sites which include coal mine methane monitoring stations in proximity to local markets that may be developed relatively rapidly are being assessed.

Further details of the results of the studies will be announced with the completion of the pre-feasibility works during the March quarter 2009.

CONTINUED EXPLORATION PROGRAMS

The above principally describes current and planned operation for Gazonor. Outside of the principal objective of expansion of current production and cost management, the main strategy of the Company, being coal bed methane and other hydrocarbon developments, will continue.

With regard to exploration works, the Company continues planning programs for the ongoing stratigraphic drilling and appraisal or production test programs for each of the Company's principal projects; Lorraine, Gazonor and Lons-le-Saunier. Database, geological and geophysical desk top appraisal programs are ongoing.

The Company has commenced discussions with several substantial groups for the potential joint venture of one or more of its exploration projects with particular emphasis on coal bed methane and other hydrocarbons.

COST REDUCTION EXERCISES

The Company is currently finalising a comprehensive cost reduction exercise.

Current forecasts demonstrate that on site unit cash operating costs at Avion may reduce by approximately 25% for the 2009 calendar year when compared to 2008. These unit cost reductions are a result of actual cost reduction measures (down approximately 15%) along with higher gas production forecasts moving from 300 to 350 GWh per year.

Corporate and exploration costs have been substantially reduced with the postponement of further drilling activities and reduced reliance on external consultants and contractors along with internal cut backs. Like for like administration costs for the company are budgeted to reduce by approximately 20% or approximately €500,000 for 2009 when compared to 2008.

The cost reduction measures coupled with the strong current and projected performance for Gazonor allow the Company to maintain a comfortable cash position for the financial year ending June 2009.

For the immediate future and given the poor state of the financial markets, the Company has no intention or requirement for sourcing additional financing.

GAS AND ELECTRICITY PRICING

Like most commodities, gas and electricity pricing has been dramatically affected by the global economic crisis. However, pricing has been partially supported as gas demand is currently above the seasonal norm due to the cold European winter and continuing geo-political issues.

Currently forward gas pricing at Zeebrugge, Belgium for the 2009 calendar year is approximately €22.40 per MWh or €6.20 per GJ (A$45.70 per MWh or A$12.70 per GJ). This represents a drop of approximately 25% from the 2008 average of €30.00 per MWh or a 37% drop from the peak of €36.00 per MWh in October 2008.

By way of comparison, in the United States Henry Hub forward gas pricing for 2009 is approximately €16.00 per MWh (US$6.00 per GJ) which has reduced by approximately 55% from July 2008 highs.

Electricity pricing in France has also been dramatically affected in the current market. The two year forward baseload pricing in France has fallen from highs of approximately €90 per MWh in October 2008 to lows of €60 per MWh in late November. Current spot baseload pricing is approximately €78 per MWh in France.

CORPORATE

The Board is in discussions and is reviewing the appointment of two additional non–executive directors to further strengthen its European representation. The expansion of the Board is a priority to provide for future growth of the Company in its unique position in the European energy markets. The Company expects to make announcements on the new appointments early in the New Year.

ABOUT EUROPEAN GAS LIMITED

European Gas Limited is a hydrocarbon producer/developer/explorer 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, having 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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COMPLIANCE STATEMENT

The technical information quoted in this announcement has been compiled by Mr Alan Flavelle and Mr Rodney 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 a member of the Society of Petroleum Engineers and is Chairman of the Society of Petroleum Engineers (Australia). 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.

Financial numbers quoted in this announcement are unaudited.