EUROPEAN GAS LIMITED

AND CONTROLLED ENTITIES

ABN 75 075 760 655

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2009

INDEX

The directors of European Gas Limited ("European Gas") present the following report on the company and its controlled entities for the financial year ended 30 June 2009.

1. PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the course of the financial year included the gas production in France and the exploration and evaluation of hydrocarbon projects including coal bed methane and coal mine methane projects in France and elsewhere in Europe.

2. REVIEW OF OPERATIONS

HYDROCARBON PROJECTS, EUROPE

France

The company has a 100% interest in the following projects areas in France:

- Gazonor production project, northern France;
- Lorraine exploration and development project, north eastern France;
- Lons Le Saunier exploration project, eastern France;
- Gardanne exploration project, southern France; and
- Saint Etienne exploration project, central France.

During the financial year the company continued gas production operations at the Gazonor Project and completed various optimisation works. Pre-feasibility works for the development of electricity projects were also completed.

The drilling and coal bed methane production test program continued at Lorraine while evaluation programs continued at Lons le Saunier, Gardanne and Saint Etienne.

At the Gazonor Project, Reserves and Contingent Resources were substantially increased. At the Lorraine Project Contingent Resources were also increased. Reserves and Contingent Resources are shown in the following tables.

Certified Reserves as at July 2008

		Billions of Cubic Metres (Bm^3)	Billions of Cubic Feet (Bcf)	Petajoules (PJ)
Gazonor	1P	1.3	46	49
Gazonor	2P	3.7	131	140
Gazonor	3P	10.1	357	380

Contingent Resources as at March 2009

		Billions of Cubic Metres (Bm^3)	Billions of Cubic Feet (Bcf)	Petajoules (PJ)
Gazonor	C1 + C2 + C3	231	8150	8642
Lorraine	C1 + C2 + C3	104	3691	3900
TOTAL		**335**	**11841**	**12542**

Italy

On a 100% basis, the company has been offered three permits in southern Tuscany subject to the approval of submitted environmental management plans. As at the end of the financial year, approvals remained pending.

Belgium / Netherlands / Luxembourg

European Gas and Compagnie Nationale à Portefeuille S.A. through its subsidiary Transcor Astra Group operate a Joint Venture company ("European Gas Benelux S.A.") for the purposes of securing title, exploring and developing hydrocarbon projects in Belgium, The Netherlands and Luxembourg.

Australia

The company holds royalty interests covering 30,171 square kilometres in the Canning Basin, Western Australia.

3. OPERATING RESULTS

The consolidated loss of the economic entity after providing for income tax amounted to €5,545,254 (2008: €3,756,513).

4. DIVIDENDS

No dividend has been paid by the company during the financial year ended 30 June 2009, nor have the directors recommended that any dividends be paid.

5. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events have occurred between the reporting date and the date of this financial report:

a. The composition of the Board has been revised during the period subsequent to the reporting date. Mr. Terence Willsteed and Mr. Alan J Flavelle have resigned from the Board, and Mr. Julien Moulin, Mr. Rod Bresnehan, and Mr. Sebastian Hempel have joined the Board as non-executive directors;
b. The consolidated entity has entered into an equity funding agreement with an US based institution to raise up to A$10 million (approximately €6 million) anytime within the next 5 years. The shares would be subscribed at 98% of the average market price over a 10 day trading period, and a commission of 4% is payable upon each drawdown;
c. The consolidated entity entered into a heads of agreement with an European based energy company to seek commercial arrangement for the potential development of electricity generation projects at Gazonor;
d. The consolidated entity entered into a heads of agreement with an Australian listed company for joint venture and farm-in arrangements in respect to the Gardanne, St Etienne, and Tuscany areas in France and Italy.
e. The consolidated entity issued 14,200,000 shares at a placement price of A$0.17 each raising A$2.414 million. The placement being completed in two tranches with the issuance of 7,100,000 shares on 29 September 2009 and 7,100,000 shares on 15 October 2009. The placement will be made to Maoming Fund who will move from an interest in the company of 14.30% to 19.98%, once completed.

6. LIKELY DEVELOPMENTS

The economic entity will continue to pursue policies which seek to provide sound opportunities for future development during the next financial year.

Likely developments and expected results of the operations of the economic entity in subsequent years are not discussed further in this report. In the opinion of the directors, further information on those matters could prejudice the interests of the company and the economic entity because it may relate to matters which are currently under negotiation and premature disclosure could breach commercial confidentiality.

7. REMUNERATION REPORT

The remuneration report is set out on pages 10 to 15 and forms part of the Directors' Report for the financial year ended 30 June 2009.

8. SAFETY

The company carries out its operations under strict industry safety standards and according to its own approved safety manual and safety systems. During the year there were no on site safety concerns or lost time injuries.

9. ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The exploration permits in France, in which the company has an interest, all carry strict environmental regulations governing activities in the field. To date, as far as the directors are aware, there have been no breaches of the license conditions.

10. DIRECTORS

The names of directors in office at any time during or since the end of the financial year:

Name and qualification	Experience
Mr. Anthony J McClure BSc Managing Director	Geologist with over 20 years technical, management and financial experience in the resources sector. Mr. McClure is also a director of Planet Gas Limited (since August 2003) and a director of Nickel Mines Limited (since May 2008).
Mr Rod Bresnehan Non-executive Director (appointed 01 September 2009)	Mr Bresnehan has 35 years of experience in the oil and gas industry in both upstream resources and reserves development; and in downstream commercial and marketing areas, with specific recent emphasis on coal bed methane projects. He has held positions at Santos Limited and Oil Company of Australia (Origin Energy). Mr Bresnehan is currently Chairman of the Australian Council of the Society of Petroleum Engineers and a director of Clean Energy Australasia and Energy Resources Development.
Mr (John) Sebastian Hempel BSc LLB ACIS Non-executive Director (appointed 01 September 2009)	Mr Hempel is a corporate lawyer with over 18 years corporate advisory experience with ASX listed companies and in the resources sector. He has held positions at Minter Ellison, Macquarie Bank Limited and the Australian Securities Exchange. Mr Hempel also holds directorships with Prosperity Resources Ltd, Greenwich Legal, and Conchita Nominees Pty Ltd and he is a member of the Council of The Armidale School.
Mr Julien Moulin Non-executive Director (appointed 01 September 2009)	Mr Moulin is co-founder of Maoming Investment Manager Ltd, an investment management company investing globally in listed and unlisted companies. He has held positions at Global China Fund, SKI Capital and UBS Global Asset Management. Mr Moulin also holds directorships with Envision Energy and Legend Media Inc.
Mr Gauthier De Potter Non-executive Director (appointed 28 January 2009)	Mr De Potter is based in Brussels and is currently an Executive Director of Transcor Astra Group ("Transcor").Mr De Potter is a qualified Electro-Mechanical Engineer and Certified Financial Analyst. He has held senior positions at JP Morgan, Tractebel (now GDF-Suez) and Bechtel Enterprises/InterGen.
Mr. Alan J Flavelle BSc FAIMM MAIG, MSPE Executive Director (resigned 01 September 2009)	Mr Flavelle is a geophysicist with over 40 years experience in the minerals, oil exploration and production industries. Knowledge and experience covers both international and domestic projects from grass roots to full production projects.
Mr. Terence V Willsteed BE(MIN) Hons BA FAusIMM MSME Non-executive Director (resigned 01 September 2009)	Mr Willsteed is a consulting mining engineer with over 40 years experience in the mining, exploration, coal and oil shale industries in Australia and overseas. He has held senior line operational and engineering positions with Zinc Corporation, Mt Isa Mines and Consolidated Goldfields Ltd.
Mr Mike Atkinson Non-executive Director (appointed 28 January 2009, resigned 28 May 2009)	Mr Atkinson is based in London and has extensive energy industry experience, in particular in the coal industry. Mr Atkinson has held positions within the UK Department of Energy and National Coal Board and is a past Chairman of the British Coal Corporation.
Mr Nicholas Farr-Jones AM LLB Non –executive Director (appointed 18 September 2008, resigned 28 November 2008)	Mr Farr-Jones is a commercial lawyer by training holding a Bachelor of Law degree from the University of Sydney, Australia. In 1995 he joined the French investment bank Société Générale in Paris. In 1999, Nicholas was appointed a director Commodities & Mining Finance at Société Générale in Sydney.

The following person held the position of company secretary at the end of the financial year:

Name and qualification	Experience
Mr. Mark Pitts CA Company Secretary	Chartered Accountant with over twenty five years experience in statutory reporting and business administration in Australia and internationally. He has been directly involved with, and consulted to a number of public companies holding senior financial management positions. Mr Pitts is a Partner in the advisory firm Endeavour Corporate (Endeavour).

11. MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the company during the year are:

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS	
	A	B	A	B
Anthony J McClure	12	12	2	2
Rod Bresnehan *	0	0	0	0
Sebastian Hempel *	0	0	0	0
Julien Moulin *	0	0	0	0
Gauthier De Potter	6	6	1	1
Alan J Flavelle	12	12	2	2
Terence V Willsteed	12	12	2	2
Mike Atkinson	5	5	1	1
Nicholas Farr-Jones	3	2	1	1

Notes
A - number of meetings attended.
B - number of meetings held during the time the director held office during the year or was a member of the relevant committee.

* These directors were appointed subsequent to the reporting date of 30 June 2009.

12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums for a standard Directors and Officers Liability and Company Reimbursement Policy. The details of the policy remain confidential between the insurer and the company.

13. DIRECTORS INTERESTS

The relevant interest of each director in the shares or options over shares of the company and any other related body corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

DIRECTOR	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
Anthony J McClure	3,820,752	1,875,000
Rod Bresnehan	0	0
Sebastian Hempel	0	0
Julien Moulin	0	0
Gauthier De Potter	0	0
Alan J Flavelle	950,000	1,375,000
Terence V Willsteed	4,000,000	750,000
Mike Atkinson	0	0
Nicholas Farr-Jones	0	0

14. OPTIONS

At the date of this report, the un-issued ordinary shares of European Gas Limited under option are as follows:

OPTION PLANS	GRANT DATE	NUMBER UNDER OPTION	EXERCISE PRICE	EXPIRY DATE
Employee & Consultant Options	15 April 2008	2,750,000	$1.50	15 April 2010
	15 April 2008	2,750,000	$2.50	15 April 2012
Director Options	25 November 2006	4,000,000	$1.50	28 November 2010
	Total	**9,500,000**		

Further details concerning the company's share option incentive plans are set out in note 15 to the financial statements accompanying this report.

No options were issued during the year.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

During the year 7,063,269 unlisted options lapsed in accordance with their terms.

15. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of a Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

In the opinion of the directors, all significant changes in the state of affairs of the consolidated entity, which occurred during the year under review, are disclosed in this report or the financial statements.

Other than as stated elsewhere in this report, there has not arisen in the interval between the end of the financial year and the date of this report any matter, circumstance or event of a material or unusual nature likely in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

16. NON-AUDIT SERVICES

During the year PKF, the company auditors, have performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditors and has formally resolved that it is satisfied that the provision of those non-audit services during the year by the auditors is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- the other services provided relate to taxation advice which is considered not to affect the independence of the company auditors;
- all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the board to ensure they do not affect the integrity and objectivity of the auditor; and
- the non-audit services provided do not compromise the general principles relating to auditor independence as set out in Code of Conduct *APES 110: Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Details of the amounts paid to the auditor of the company and their related practices for audit and non-audit services provided during the year are set out in Note 20 of the financial statements.

17. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 16 and forms part of the directors' report for the year ended 30 June 2009.

Signed in accordance with a resolution of the Board of Directors

Anthony J McClure – Managing Director

Dated at Paris, France this 29 day of September 2009

Remuneration policy
Overview of remuneration policy

This report details the nature and amount of remuneration for each director of European Gas Limited and for the executives receiving the highest remuneration. Remuneration levels for directors, company secretary, senior managers of the company and relevant group executives of the consolidated entity ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the directors and senior executives ability to control the relevant segments performance;
- the consolidated entity's performance including:
  - the consolidated entity's operational and financial performance;
  - the scale and complexity of operations;
  - the growth in share price and returns on shareholder wealth; and
- the amount of incentives within each directors and senior executive's remuneration.

Remuneration packages comprise fixed remuneration and long-term performance-based incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board through a process that considers individual, segment (if applicable) and overall performance of the consolidated entity. The Board has regard to remuneration levels external to the group to ensure the director's and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance linked remuneration

Performance linked remuneration is represented by long-term incentives in the form of options and provide a means by which the company can reward and provide performance based incentive to its directors. In the company's early stages of development it is considered appropriate that the company provide incentive options as a cost effective and efficient way of providing incentive to directors and other executives.

Details of outstanding options are provided in note 14 of the director's report. Any grant of options to directors requires prior shareholder approval.

At the Annual General Meeting in November 2006 shareholders "refreshed" the approval of the European Gas Limited Employee Share Option Plan the ("Incentive Plan"). The purpose of the Incentive Plan is to provide selected directors, employees and consultants of the company (and its subsidiaries) with the means of receiving options to subscribe for shares in the company. The intention is to give these people the opportunity to share in the future growth and profitability of the company by aligning their interests with those of shareholders. This is expected to motivate them to have a greater involvement with and commitment to the company, and to focus on the longer term goals of the company.

Consequence of performance on shareholder wealth

In considering the consolidated entity's performance and benefits for shareholders wealth the board has regard to the following indices in respect of the current financial year and the previous financial period.

Indices	2009	2008	2007	2006	2005
Net profit (loss) €'000	(5,545)	(3,757)	(1,172)	(423)	(107)
Earnings/(loss) per share (€ cents per share)	(2.78)	(1.89)	(0.66)	(0.29)	(0.08)
Dividends paid (€ cents per share)	Nil	Nil	Nil	Nil	Nil
Change in share price – increase/(decrease) (AU$ cents per share)	(55.5)	(30.0)	61.0	33.5	(2.2)
Return of capital	Nil	Nil	Nil	Nil	Nil
Net cash from/(used in operations) €'000	(1,697)	(607)	(1,306)	(995)	(141)
Market capitalisation (undiluted) at 30 June €'000	16,035	84,377	123,805	36,320	4,182

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long term creation of shareholder wealth, the Board has had regard for the stage of development of the company's business and given consideration to each of the indices outlined above. In view of the nature of the company's activities and the relatively early stage of development the market capitalisation of the company is likely to be the most representative measure of the impact of the company's remuneration policies on shareholder wealth.

Service agreements

In August 2006, the company entered into an agreement for the engagement of Mr. Anthony McClure as Managing Director. The agreement between the company and Anthina Holdings Pty Ltd, an entity controlled by Mr. McClure, is for an initial term of four years, subject to rights of earlier termination as follows:

- without notice on certain specified grounds without compensation; and
- by the company on 3 months notice with compensation being the payout of the base remuneration for the remainder of the term plus relocation costs for Mr. McClure and his family.

His remuneration provides for a (i) base salary of €250,000 p.a. and annual leave of 6 weeks; and (ii) benefits in the form of fully furnished family accommodation, annual return air ticket for the family from France to Australia, school fees for children, and family medical insurance.

In January 2008 the company entered into a service agreement with Endeavour Corporate Pty Ltd, a company controlled by the company secretary, Mr. Mark Pitts. The contract is for no fixed term and fees payable are based on market rates for these types of services and are payable on a monthly basis for the duration of the contract. Either party may terminate the agreement on 1 months notice at any time.

Non-executive directors

Non-executive directors receive fees determined by the Board, but within the aggregate limit of $300,000 as approved by Shareholders in 2006.

Directors & Executives Disclosures

Remuneration of directors and executives by the consolidated entity

Directors and Key Management Personnel	
Anthony J McClure	Managing Director
Rod Bresnehan	Non-executive Director (appointed 01 September 2009)
Sebastian Hempel	Non-executive Director (appointed 01 September 2009)
Julien Moulin	Non-executive Director (appointed 01 September 2009)
Gauthier De Potter	Non-executive Director (appointed 28 January 2009)
Alan J Flavelle	Executive Director (resigned 01 September 2009)
Terence V Willsteed	Non-executive Director (resigned 01 September 2009)
Mike Atkinson	Non-executive Director (appointed 28 January 2009, resigned 28 May 2009)
Nicholas Farr-Jones	Non-executive Director (appointed 18 September 2008, resigned 28 November 2008)
Company Executives (as defined by section 300A (1b) (a))	
Mark Pitts	Company Secretary
Thierry Suvaal	Chief Financial Officer

Remuneration of specified directors and specified executives by the consolidated entity

The following table provides details of all directors of the company (also key management personnel) and other company executives the nature and amount of the elements of their remuneration for the year ended 30 June 2009.

	Year	Short term benefits		Share based payments			
		Salary & fees	Non-monetary Benefits	Value of Options (1)	TOTAL	Proportion of remuneration performance related	Value of Options as a proportion of remuneration
		€	€	€	€	%	%
Directors							
Anthony J McClure	2009	251,868	114,873	-	366,740	-	-
	2008	250,000	91,706	-	341,706	-	-
Alan J Flavelle	2009	108,281	-	-	108,281	-	-
	2008	118,340	-	-	118,340	-	-
Terence V Willsteed	2009	35,770			35,770	-	-
	2008	41,789	-	-	41,789	-	-
Gauthier De Potter	2009	14,565	-	-	14,565	-	-
(appointed 28/01/2009)							
Mike Atkinson (appointed 28/01/2009, resigned 28/05/2009)	2009	11,334	-	-	11,334	-	-
Nicholas Farr-Jones (appointed 18/09/2008, resigned 28/11//2008)	2009	7,437	-	-	7,437	-	-
Total, all directors	2009	429,255	114,873	-	544,127	-	-
	2008	410,129	91,706	-	501,835	-	-
Executives							
Mark Pitts	2009	32,265	-	-	32,265	-	-
	2008	16,606	-	-	16,606	-	-
Thierry Suvaal	2009	183,014	-	-	183,014	-	-
	2008	57,724	-	15,507	73,231	-	21%
Fabrice Toussaint	2009	183,206	-	-	183,206	-	-
(resigned 31/05/2009)	2008	101,301	-	15,507	116,808	-	13%
Craig Ferrier							
(resigned 18/01/2008)	2008	19,011	-	-	19,011	-	-
Total, all executives	2009	398,485			398,485	-	-
	2008	194,642	-	31,014	225,656	-	14%

(1) The fair value of the options is calculated at the date of grant using a binomial tree model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to the relevant reporting period.

The following balances were outstanding to the Directors and Executives at reporting date:

	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	€	€	€	€
Directors				
Anthony J McClure	21,500	14,833	21,500	14,833
Alan J Flavelle	4,505	-	4,505	-
Gauthier De Potter	10,600	-	10,600	-
Executives				
Mark Pitts	3,163	3,300	3,163	3,300
	39,768	**18,133**	**39,768**	**18,133**

These balances represent salaries and fees payable (including GST / VAT, where applicable) to the Directors and Executives. These balances are unsecured and are interest free.

Equity Instruments

Analysis of movements in shareholdings

Directors	Balance as at 01 July 2008	Acquired during the year	Disposed during the year	Balance as at 30 June 2009
Anthony McClure	3,220,752	600,000	-	3,820,752
Alan Flavelle	950,000	-	-	950,000
Terence Willsteed	3,500,000	500,000	-	4,000,000
Gauthier De Potter	-	-	-	-
Mike Atkinson	-	-	-	-
Nicholas Farr-Jones	-	-	-	-
Company Executives				
Mark Pitts	-	-	-	-
Thierry Suvaal	-	451,053	-	451,053
Fabrice Toussaint	-	-	-	-
	7,670,752	**1,551,053**	**-**	**9,221,805**

Analysis of movements in options

Directors	Balance as at 01 July 2008	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 30 June 2009
Anthony McClure	3,750,000	-	-	1,875,000	1,875,000
Alan Flavelle	2,750,000	-	-	1,375,000	1,375,000
Terence Willsteed	1,500,000	-	-	750,000	750,000
Gauthier De Potter	-	-	-	-	-
Mike Atkinson	-	-	-	-	-
Nicholas Farr-Jones	-	-	-	-	-
Company Executives					
Mark Pitts	-	-	-	-	-
Thierry Suvaal	1,500,000	-	-	-	1,500,000
Fabrice Toussaint	1,500,000	-	-	1,500,000	-
	11,000,000	**-**	**-**	**5,500,000**	**5,500,000**

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of European Gas Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of European Gas Limited and the entities it controlled during the year.

PKF
Chartered Accountants

Chris Nicoloff
Partner

Dated at Perth, Western Australia this 29th day of September 2009

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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2009	2008	2009	2008
Continuing operations		€	€	€	€
Sales revenue		8,118,995	3,679,187	-	-
Cost of sales		(4,678,194)	(2,066,313)	-	-
Gross profit		**3,440,801**	**1,612,874**	**-**	**-**
Other revenue from ordinary operations:					
Finance Income	2	28,664	305,500	1,982,401	1,440,265
Royalty Income		23,582	10,777	23,582	10,777
Profit on sale of assets held for sale		-	445,564	-	445,564
Other income		27,177	231,785	646	1,988
		79,423	**993,626**	**2,006,629**	**1,898,594**
Other expenses from ordinary operations:					
Administrative expenses		(1,838,555)	(1,104,101)	(549,174)	(776,143)
Professional and consultancy fees		(1,358,897)	(1,034,956)	(1,190,224)	(1,167,310)
Other field expenses		(1,376,738)	(457,097)	-	-
Depreciation and amortization expenses		(1,167,706)	(1,620,776)	(3,048)	(16,264)
Finance Expense	2	(2,709,000)	(1,353,882)	(2,882,361)	(1,349,410)
Loss on sale of fixed assets		(4,460)	-	(223)	-
Loss on sale of available for sale financial assets		(29,386)	(29,042)	(29,386)	(29,042)
Share based payments		-	(530,221)	-	(530,221)
Impairment of available for sale financial assets		(236,690)	(360,262)	(236,690)	(360,262)
Other expenses from ordinary activities		(357,720)	(80,888)	(72,264)	-
		(9,079,152)	**(6,571,224)**	**(4,963,370)**	**(4,228,653)**
Profit/(loss) from ordinary activities before income tax expense		**(5,558,928)**	**(3,964,724)**	**(2,956,741)**	**(2,330,059)**
Income tax benefit relating to ordinary activities	3	13,674	208,211	(85,546)	-
Profit/(loss) attributable to members of the parent entity		(5,545,254)	(3,756,513)	(3,042,287)	(2,330,059)
Profit/(loss) after tax from discontinued operations		-	-	-	-
Net loss for the period		**(5,545,254)**	**(3,756,513)**	**(3,042,287)**	**(2,330,059)**
Basic earnings/(loss) per share (cents per share) – continuing operations	25	(2.78)	(1.89)	-	-
Diluted earnings/(loss) per share (cents per share) – continuing operations	25	(2.78)	(1.89)	-	-

The accompanying notes form part of these financial statements

BALANCE SHEET
AS AT 30 JUNE 2009

	NOTE	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
CURRENT ASSETS					
Cash and cash equivalents		2,319,608	8,815,984	167,463	334,351
Trade and other receivables	4	1,116,864	1,772,700	36,491	79,347
Prepayments		59,999	25,740	-	-
Inventories		286,912	260,315	-	-
TOTAL CURRENT ASSETS		**3,783,383**	**10,874,739**	**203,954**	**413,698**
NON-CURRENT ASSETS					
Receivables	4	-	-	35,045,391	34,182,006
Available for sale financial assets	5	254,567	677,225	254,567	677,225
Other financial assets - subsidiaries	6	-	-	29,151,764	29,151,764
Intangible assets	7	24,021,414	24,779,376	-	-
Property, plant and equipment	8	3,256,435	2,484,616	2,571	5,842
Exploration & evaluation expenditure	9	26,999,345	23,324,966	32,253	-
TOTAL NON-CURRENT ASSETS		**54,531,761**	**51,266,183**	**64,486,546**	**64,016,837**
TOTAL ASSETS		**58,315,144**	**62,140,922**	**64,690,500**	**64,430,535**
CURRENT LIABILITIES					
Trade and other payables	11	1,361,600	1,325,641	221,818	97,989
Current tax liability	3	7,648	331,820	-	-
Interest bearing loans and borrowings	12	931,797	848,533	6,379,881	4,735,946
TOTAL CURRENT LIABILITIES		**2,301,045**	**2,505,994**	**6,601,699**	**4,833,935**
NON- CURRENT LIABILITIES					
Interest bearing loans and borrowings	12	35,092,315	33,557,827	35,092,315	33,557,827
Deferred tax liability	3	-	256,613	-	-
Provisions	13	3,029,049	2,382,499	-	-
TOTAL NON- CURRENT LIABILITIES		**38,121,364**	**36,196,939**	**35,092,315**	**33,557,827**
TOTAL LIABILITIES		**40,422,409**	**38,702,933**	**41,694,014**	**38,391,762**
NET ASSETS		**17,892,735**	**23,437,989**	**22,996,486**	**26,038,773**
EQUITY					
Contributed equity	14	31,281,424	31,281,424	31,281,424	31,281,424
Reserves	16	1,656,851	1,656,851	1,692,733	1,692,733
Accumulated losses	17	(15,045,540)	(9,500,286)	(9,977,671)	(6,935,384)
TOTAL EQUITY		**17,892,735**	**23,437,989**	**22,996,486**	**26,038,773**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		8,279,949	3,917,515	24,228	14,579
Payments to suppliers and employees		(8,687,344)	(4,312,778)	(1,568,400)	(2,071,746)
Borrowing costs		(19,056)	(74,873)	(8,061)	(74,866)
Interest paid on convertible notes		(1,087,500)	(543,750)	(1,087,500)	-
Interest received		52,243	407,293	9,432	22,274
Income taxes paid		(235,291)	-	(85,546)	-
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		**(1,696,999)**	**(606,593)**	**(2,715,847)**	**(2,109,759)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant & equipment		(77,463)	(93,368)	-	(44,824)
Expenditure on exploration		(4,805,523)	(4,314,012)	(32,253)	-
Acquisition of subsidiary, net of cash acquired	28	-	(26,657,796)	-	(53,327)
Proceeds from sale of equity investments		156,582	1,145,578	156,582	1,145,578
Payments made to controlled entities		-	-	2,496,894	(35,429,592)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**(4,726,404)**	**(29,919,598)**	**2,621,223**	**(34,382,165)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	59,800	-	59,800
Proceeds from borrowings	12	-	36,375,000	-	36,375,000
Costs associated with issuing convertible notes		-	(148,558)	-	
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		**-**	**36,286,242**	**-**	**36,434,800**
NET INCREASE/(DECREASE) IN CASH HELD		(6,423,403)	5,760,051	(94,624)	(57,124)
Effect of translation of foreign currency		(72,974)	(142,359)	(72,264)	(29,591)
Cash at 1 July 2008		8,815,984	3,198,292	334,351	421,066
Cash at 30 June 2009		**2,319,607**	**8,815,984**	**167,463**	**334,351**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

CONSOLIDATED	Attributable to equity holders of the parent			
	Issued capital	Accumulated losses	Other reserves	Total
	€	€	€	€
At 1 July 2007	28,691,820	(5,388,471)	1,295,550	24,598,899
Loss for the period	-	(3,756,513)	-	(3,756,513)
Issued shares	59,800	-	-	59,800
Equity component of convertible note	2,609,373	-	-	2,609,373
Cost of option valuation	-	-	530,221	530,221
Effect of translation to presentation currency	(79,569)	(355,302)	(335,240)	(770,111)
Movement in Available for sale reserve	-	-	166,320	166,320
At 30 June 2008	**31,281,424**	**(9,500,286)**	**1,656,851**	**23,437,989**
At 1 July 2008	31,281,424	(9,500,286)	1,656,851	23,437,989
Loss for the period	-	(5,545,254)	-	(5,545,254)
At 30 June 2009	**31,281,424**	**(15,045,540)**	**1,656,851**	**17,892,735**

PARENT ENTITY	Attributable to equity holders of the parent			
	Issued capital	Accumulate d losses	Other reserves	Total
	€	€	€	€
At 1 July 2007	28,691,820	(4,460,021)	2,138,545	26,370,344
Profit for the period	-	(2,330,059)	-	(2,330,059)
Issued shares	59,800	-	-	59,800
Equity component of convertible note	2,609,373	-	-	2,609,373
Cost of option valuation	-	-	530,221	530,221
Effect of translation to presentation currency	(79,569)	(145,304)	(1,142,353)	(1,367,226)
Movement in Available for sale reserve	-	-	166,320	166,320
At 30 June 2008	**31,281,424**	**(6,935,384)**	**1,692,733**	**26,038,773**
At 1 July 2008	31,281,424	(6,935,384)	1,692,733	26,038,773
Profit for the period	-	(3,042,287)	-	(3,042,287)
At 30 June 2009	**31,281,424**	**(9,977,671)**	**1,692,733**	**22,996,486**

The accompanying notes form part of this financial report.

1 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

A REPORTING ENTITY

European Gas Limited (the 'company') is a company domiciled in Australia. The address of the company's registered office is Suite 4, 4 Ventnor Avenue, West Perth Western Australia 6005, Australia. The consolidated financial statements of the company as at and for the year ended 30 June 2009 comprise the company and its subsidiaries (together referred to as the 'Group") and the Groups interest in associates and jointly controlled entities. The Group is primarily involved in the exploration for commercial coal bed and coal mine methane deposits in Europe.

The financial report was authorised for issue by the Directors on 29 September 2009.

B BASIS OF PREPARATION

Statement of Compliance

The financial report is a general purpose report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Functional Currency

The financial report is represented using the Euro currency denomination (€).

Euro was adopted as the functional currency of the economic entity with effect from 1st January 2008, as the Group is predominantly exposed to European economic environment.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Principles of Consolidation

A controlled entity is any entity European Gas Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 27 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(ii) Interest in joint venture operation

The Group's interest in its joint venture operation is accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements.

(iii) Foreign currency transaction

Both the functional and presentation currency of European Gas Limited and all its subsidiaries is Euros (€).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iv) Property, plant and equipment

For an asset that does not generate largely independent cashflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Land and buildings are measured at cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings – over 20 years

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Plant and equipment

Gas producing assets
The cost of gas producing assets and capital expenditure on gas assets under development are accounted for separately and are stated at cost less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item as well as past exploration and evaluation cost. In addition costs include:

(i) The initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site in which they are located, and
(ii) Changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

When a gas asset commences production, cost carried forward will be amortised on a units of production basis over the like of the economically recoverable reserves. Changes in factors such as estimates of economically recoverable reserves that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

Other plant and equipment
Other plant and equipment is depreciated using the straight line method over its estimated useful life. The depreciation rates used for other plant and equipment are in the range 10%-33%.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of their value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(v) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(vi) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(vii) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in the circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(viii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying value of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cashflows that are largely independent of those other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cashflows are discounted to their present value of money and the risks specific to the asset.

(ix) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as available for sale, are measured at fair value.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which point the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is subsequently the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

Parent's investments in the subsidiaries are accounted at "cost" per AASB 127. The management assess the carrying amount of such investments at each balance date, and any impairment therein is provided for.

(x) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xi) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(xii) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xiii) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received and are subsequently measured at amortised cost.

(xiv) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(xv) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision in the income statement is net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of the money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xvi) Share based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Company operates an Employee Share Option Plan (ESOP), which provides benefits to directors, senior executives, consultants and contractors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Binomial Tree and Black -Scholes models, taking into account the terms and conditions upon which options were granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of European Gas Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xvii) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and amortized over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xviii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales revenue

Revenue from the sale of gas is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue received during the commission phase of gas assets is recorded, together with the related costs of production, against the capitalised carrying value of the asset.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Royalty income

Revenue is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(xix) Income tax

Income tax on the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Current tax liability is recognised to the extent unpaid income taxes for the current and prior periods. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as a current tax asset.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- Except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(xx) Other taxes
Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") / Value Added Tax ("VAT") except:

- Where the GST / VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST / VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables are stated with the amount of GST / VAT included.

The net amount of GST / VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST / VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are discussed net of the amount of GST / VAT recoverable from, or payable to, the taxation authority.

(xxi) Derivative Financial Instruments
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in the fair value being recognised in profit and loss

(xxii) Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group
.
Key Estimates — Impairment
The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. The Group is holding assets for exploration and evaluation expenditure where there is uncertainty regarding recoverability and successful development of the area, as discussed in Note 1C (v).

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The result of this judgement in the prior year was that certain exploration and evaluation assets had become impaired and accordingly an impairment loss (exploration expenditure written off) was recognised in the income statement in the prior year.

Provision for restoration, rehabilitation and dismantling
Provision for restoration, rehabilitation and dismantling is recognised when there is a legal or constructive commitment to do so. The amount recognised is the estimated cost of restoration, rehabilitation and dismantling, discounted to its net present value and is re-assessed each year in accordance with local conditions and requirements.

Share based payments
The values of amounts recognised in respect of share based payments has been estimated based on the fair value of the options. To estimate this fair value an option pricing model has been used. There are many variables and assumptions used as inputs into the model (which have been detailed in Note 15). If any of these assumptions or estimates were to change this could have a significant effect on the amounts recognised.

Goodwill impairment
As per note 1Cvii Goodwill is tested for impairment annually. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro-rata basis.

(xxiii) Compound Financial Instruments

The Group evaluates the terms of any financial instrument to determine whether it contains both a liability and an equity component. The separate components of a financial instrument that create a financial liability and grant an option to the holder of the instrument to convert it into an equity instrument are recognised separately on the balance sheet

(xxiv) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(xxv) Other intangible assets

Other intangible assets that are acquired are stated at costs less accumulated amortisation and impairment losses. Amortisation is recognised as an expense on a straight-line basis over the estimated useful life of the assets

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS

Title	Summary	Application date	Impact on the group
AASB 101: Presentation of Financial Statements	The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards. However, it is important to note that the AASB has decided that Australian issuers must make use in financial reports of the descriptions-Statement of Financial Performance and Position rather than Balance Sheet and Income Statement and use the term "Financial Report" and not "Financial Statement." The Amending Standard updates references in various other pronouncements.	Financial year beginning 1st January 2009	AASB 101 affects disclosures in the financial report, rather than the measurement or recognition of financial items. The amendments to the standards will impact the Group's financial report disclosures for the financial year ending 30 June 2010.
AASB 123: Borrowing Costs	This revision eliminates the option to expense borrowing costs on qualifying assets and requires that they be capitalised. The transitional provision provided allows for prospective application of this revision from either application date or adoption date if prior to 1 January 2009. The Amending Standard eliminates reference to the expensing option in various other pronouncements.	Financial year beginning 1st January 2009	Amendments to the standard would not have material impact on the Group, as the Group is currently not engaged in acquisition, construction or production of a qualifying asset noted in the standard.
AASB 8: Operating Segments	This standard supersedes AASB 114, Segment Reporting introducing a US GAAP approach of management reporting as part of the convergence project with FASB. This standard only applies to entities that have public accountability therefore any entities that do not fall within scope may wish to early adopt and avoid segment reporting. The Amending Standard updates references in various other pronouncements.	Financial year beginning 1st January 2009	AASB 8 affects disclosures of segment reporting, rather than the measurement or recognition of financial items. The amendments to the standards will impact the Group's financial report disclosures for the financial year ending 30 June 2010.

Amendments to other standards and interpretation do not have material impact on the group, as the group does not engage in transactions covered by such amendments.

2 FINANCE INCOME AND EXPENSES

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Finance Income				
-Interest received on deposits held	28,664	305,500	9,432	22,433
-Interest received from subsidiaries	-	-	1,972,969	1,417,832
	28,664	**305,500**	**1,982,401**	**1,440,265**
Finance Expense				
-Interest paid	1,091,249	560,320	1,264,610	555,848
-Finance costs arising from amortisation process	1,617,751	793,562	1,617,751	793,562
	2,709,000	**1,353,882**	**2,882,361**	**1,349,410**

3 INCOME TAX EXPENSE

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Major components of income tax expense for the years ended 30 June 2009 and 2008 are:				
Income statement				
Current income	-	331,820	-	-
Current income tax charge	-	-	-	-
Deferred income tax	-	-	-	-
Adjustment to current tax for prior period	-	-	85,546	-
Relating to origination and reversal of temporary differences	-	-	-	-
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	(13,674)	(540,031)	-	-
Tax losses applied against subsidiaries taxable income	-	-	-	-
Income tax expense reported in income statement	**(13,674)**	**(208,211)**	**85,546**	**-**
Statement of changes in equity				
Current income tax	-	-	-	-
Capital Raising Costs	-	-	-	-
Reversal of previously recognised deferred tax liability (*Asset Revaluations*)	-	-	-	-
Income tax expense reported in equity	**-**	**-**	**-**	**-**

:

3 INCOME TAX EXPENSE (CONT'D)

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the company's effective income tax rate for the years ended 30 June 2009 and 2008 is as follows:

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	**2008**	**2009**	**2008**
	€	**€**	**€**	**€**
Accounting profit (loss) before tax from continuing operations	(5,558,928)	(3,756,513)	(2,956,741)	(2,330,059)
Profit before tax from discontinued operations				
Accounting profit (loss) before income tax	**(5,558,928)**	**(3,756,513)**	**(2,956,741)**	**(2,330,059)**
At the statutory income tax rate of 30% (2008: 30%)	(1,667,678)	(1,126,954)	(887,022)	(699,018)
International tax created differential	7,940	(8,686)	-	-
Temporary difference not brought to account as a DTA	323,649	334,779	85,546	106,368
Non-assessable income				
Non-deductible expenses	845,627	596,945	845,627	596,945
Amounts charged to equity	-	(4,295)	-	(4,295)
Deferred tax assets relating to losses not brought to account for the Australian Consolidated Group	476,788	-	41,395	-
Income tax expense	**(13,674)**	**(208,211)**	**85,546**	**-**
Income tax expense reported in income statement	(13,674)	-	85,546	-
Income tax attributable to discontinued operation	-	(208,211)	-	-
	(13,674)	**(208,211)**	**85,546**	**-**
Effective income tax rate	0%	0%	0%	0%

Tax consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is European Gas Ltd.

3 INCOME TAX EXPENSE (CONT'D)

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.
The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the member entities' inter-company accounts with the tax consolidated group head company, European Gas Ltd. In this regard the Company has assumed the benefit of tax losses from the member entities as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

CONSOLIDATED

	Assets		**Liabilities**		**Net**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	€	**€**	**€**	**€**	**€**	**€**
Customer Contracts	-	-	-	256,613	-	256,613
Exploration	-	-	-	-	-	-
Accrued superannuation	-	-	-	-	-	-
Accrued audit fees	-	-	-	-	-	-
Employee Entitlements	-	-	-	-	-	-
Tax losses	-	-	-	-	-	-
Tax (assets) liabilities	-	-	-	256,613	-	256,613
Set off of tax	-	-	-	-	-	-
Net tax (assets) liabilities	**-**	**-**	**-**	**256,613**	**-**	**256,613**

3 INCOME TAX EXPENSE (CONT'D)

Deferred income tax
Deferred income tax at 30 June relates to the following:

CONSOLIDATED

Movement in temporary differences during the year	**Balance 1 July 2007**	**Recognised in Income**	**Recognised in Equity**	**Recognition of Gazonor**	**Balance 30 June 2008**
Customer Contracts	-	(540,044)	-	796,657	256,613
Capitalised expenditure deductible for tax purposes	9,768	(9,768)	-	-	-
Employee benefit provisions	(3,623)	3,623	-	-	-
Accrued superannuation	(1,660)	1,660	-	-	-
Accrued audit fees	(4,485)	4,485	-	-	-
Provision for annual report	-	-	-	-	-
Tax losses	-	(9,068)	-	-	-
	-	**-**	**-**	**-**	**-**

Movement in temporary differences during the year	**Balance 1 July 2008**	**Recognised in Income**	**Recognised in Equity**	**Recognition of Gazonor**	**Balance 30 June 2009**
Customer Contracts	256,613	(256,613)	-	-	-
Capitalised expenditure deductible for tax purposes	-	-	-	-	-
Employee benefit provisions	-	-	-	-	-
Accrued superannuation	-	-	-	-	-
Accrued audit fees	-	-	-	-	-
Provision for annual report	-	-	-	-	-
Tax losses	-	-	-	-	-
	256,613	**(256,613)**	**-**	**-**	**-**

3 INCOME TAX EXPENSE (CONT'D)

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

PARENT

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
	€	€	€	€	€	€
Exploration	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Property, Plant and Equipment	-	-	-	-	-	-
Accrued superannuation	-	-	-	-	-	-
Accrued audit fees	-	-	-	-	-	-
Employee Entitlements	-	-	-	-	-	-
Provision - annual report	-	-	-	-	-	-
Tax losses	-	-	-	-	-	-
Tax (assets) liabilities	-	-	-	-	-	-
Set off of tax	-	-	-	-	-	-
Net tax (assets) liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Movement in temporary differences during the year	**Balance 1 July 2007**	**Recognised in Income**	**Recognised in Equity**	**Balance 30 June 2008**
	€	**€**	**€**	**€**
Capitalised expenditure deductible for tax purposes	9,768	(9,768)	-	-
Employee benefit provisions	(3,623)	3,623	-	-
Accrued superannuation	(1,660)	1,660	-	-
Accrued audit fees	(4,485)	4,485	-	-
Provision for annual report	-	-	-	-
Tax losses	-	-	-	-
	-	**-**	**-**	**-**

3 INCOME TAX EXPENSE (CONT'D)

Movement in temporary differences during the year	Balance 1 July 2008 €	Recognised in Income €	Recognised in Equity €	Balance 30 June 2009 €
Capitalised expenditure deductible for tax purposes	-	-	-	-
Employee benefit provisions	-	-	-	-
Accrued superannuation	-	-	-	-
Accrued audit fees	-	-	-	-
Provision for annual report	-	-	-	-
Tax losses	-	-	-	-
	-	**-**	**-**	**-**

	ECONOMIC ENTITY		PARENT ENTITY	
	2009 €	2008 €	2009 €	2008 €
Unrecognised Deferred Tax Balances				
Unrecognised deferred tax asset losses				
- Domestic Tax losses	-	-	366,848	756,833
- Capital losses	-	-	280,977	282,717
- Capital raising costs	-	-	150,043	5,290
Unrecognised deferred tax asset other	-	-	173,606	-
Unrecognised deferred tax liabilities	-	-	-	-
	-	**-**	**971,474**	**1,044,840**

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the company can utilise benefits.

4 RECEIVABLES

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Current				
- Trade receivables	703,943	833,577	-	-
- Other receivables[1]	412,921	939,123	36,491	79,347
Total Current Receivables	**1,116,864**	**1,772,000**	**36,491**	**79,347**
Non-Current				
- Owing from controlled entities	-	-	35,045,391	34,182,006
Total Non-Current Receivables	**-**	**-**	**35,045,391**	**34,182,006**
Aged trade receivable analysis				
1-30 days	633,333	762,967	-	-
31 -60 days	-	-	-	-
61-90 days	-	-	-	-
>90 days	70,610	70,610	-	-
	703,943	**833,577**	**-**	**-**

[1] Other receivables contains amounts relating to monies owed from refunds of Value Added Tax and Goods and Services Tax, which are both deemed to carry a low credit risk.

5 AVAILABLE FOR SALE FINANCIAL ASSETS

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Investment in listed shares at fair value	254,567	677,225	254,567	677,225
Total	**254,567**	**677,225**	**254,567**	**677,225**

The fair values have been assessed applying the closing bid price of the investments as noted in their respective stock exchanges.

6 INVESTMENT IN CONTROLLED ENTITIES

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Investment in European Gas SAS, France	-	-	14,587,000	14,587,000
Investment in Heritage Petroleum Plc, UK	-	-	14,564,764	14,564,764
Total	**-**	**-**	**29,151,764**	**29,151,764**

	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
7 INTANGIBLE ASSETS				
Goodwill	24,010,740	24,010,740	-	-
Gas Contracts	-	747,490	-	-
Software	10,674	21,146	-	-
	24,021,414	24,779,376	-	-

Movement in intangible assets

	ECONOMIC ENTITY 2009 Goodwill[1] €	Gas Contracts[2] €	Software €	Total €
Balance at 01 July 2008	**24,010,740**	**747,490**	**21,146**	**24,779,376**
Amortisation during the year	-	(747,490)	(10,472)	(757,962)
	24,010,740	**-**	**10,674**	**24,021,414**

[1] Goodwill arising on the acquisition of Gazonor has been impairment tested based on the value in use methodology. The values in use calculations apply a discounted cash flow methodology. Cash flow projections are based on European Gas management's acquisition models and 20 year business plan for Gazonor and are determined based on expected market trends and the expected impact of the key assumptions (discussed below) of gas production, gross margin and operating costs. The cash flow projections are discounted using a pre-tax discount rate of 10.0 percent.

For the purpose of allocation of goodwill and impairment testing, Gazonor business unit has been considered as a separate cash generating unit, as the inflows of this business is independent of the other activities of the group entities.

Key assumptions and their sensitivities to change used to calculate the value in use and the approach to determining their value in the current period:

Assumptions	Method of determination	Sensitivity to change in assumption
Gas Production	Production forecast is based on the 1P reserves assessed using an independent report prepared by Deutsche Montan Technologie GmbH of Essen, Germany.	The 1P reserve valuation is a conservative estimate. A 15.0% reduction in future production would still yield a significantly greater value in use than the carrying value.
Gross Margin	Gross Margins are based on the values achieved through current contracts in place. The prices used are increased using an indexation of 2.5% for future years.	The group has used conservative indexation levels for future rise in gas prices, and as such does not envisage any adverse impact on the margins from changes in price. A reduction of 1.0% in the indexation value would still yield a significantly greater value in use than the carrying value.
Operating Costs	Operating Costs have been based on current contracts in place. The costs used are increased using an indexation of 2.5% for future years.	The group has used readily available economic information to determine the cost indexation. An increase to 5.0% would still yield a significantly greater value in use than the carrying value.

[2] Future earnings from contracts in place for sales of gas have been recognised upon the acquisition of Gazonor. A discounted cash flow methodology has been used to calculate the value of earnings, the cash flow projection has been discounted using a pre-tax discount rate of 10.0 percent. The asset is amortised using the straight-line basis method over its useful life.

8 PROPERTY, PLANT AND EQUIPMENT

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Land & Buildings				
-At cost	704,878	704,878	-	-
-Accumulated depreciation	(171,760)	(105,228)	-	-
Total land and buildings	**533,118**	**599,650**	**-**	**-**
Plant and equipment				
-At cost	5,110,269	4,008,394	11,934	31,971
- Accumulated depreciation	(2,386,952)	(2,123,428)	(9,363)	(26,129)
Total plant and equipment	2,723,317	1,884,966	2,571	5,842
Total property, plant and equipment	**3,256,435**	**2,484,616**	**2,571**	**5,842**

Movement in the carrying amounts for plant and equipment between the beginning and end of current financial years.

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	TOTAL
	€	€	€
Economic entity			
- Balance at the beginning of the year	599,650	1,884,966	2,484,616
- Additions	-	42,724	42,724
- Transfers from exploration and evaluation	-	1,063,388	1,063,388
- Depreciation	(66,532)	(263,524)	(330,056)
- Disposals	-	(4,237)	(4,237)
Carrying amount at the end of the year	**533,118**	**2,723,317**	**3,256,435**
Parent entity:			
- Balance at the beginning of the year	-	5,842	5,842
- Additions	-	-	-
- Depreciation	-	(3,048)	(3,048)
- Disposals	-	(223)	(223)
Carrying amount at the end of the year	**-**	**2,571**	**2,571**

9. EXPLORATION EXPENDITURE

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€

Exploration expenditure costs carried forward in respect of areas of interest in:

-Pre-Production:
-Exploration and evaluation phases - at cost

Balance at the beginning of the year	23,324,966	21,190,172	-	34,340
Expenditure incurred	4,737,767	2,038,208	32,253	-
- Transfers to plant and equipment	(1,063,388)	-	-	-
Disposals	-	(34,340)	-	(34,340)
Effect of translation to presentation currency	-	130,926	-	-
Balance at the end of the year	26,999,345	23,324,966	32,253	-
Continuing operations	26,999,345	23,324,966	32,253	-
Discontinued operations	-	-	-	-
	26,999,345	**23,324,966**	**32,253**	**-**

Ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development & commercial exploitation or sale of the respective exploration areas.

In order to maintain an interest in the mining and exploration tenements in which the consolidated entity is involved, the consolidated entity is committed to meeting the conditions under which the permits are granted and the obligations of any joint venture agreements. The timing and amount of exploration expenditure commitments and obligations of the consolidated entity are subject to the minimum expenditure commitments required by the relevant country and state Authorities, and may vary significantly from the forecasts based upon the results of the work performed which will determine the prospectivity of the relevant areas of interest

10. ESTIMATED EXPENDITURE COMMITMENTS

	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €
0- 1 years	833,571	1,284,000
1- 5 years	19,641,971	15,076,000
≥5 years	617,298	-
	21,092,840	**16,360,000**

These commitments include contractual lease agreements and exploration expenditure. In order to maintain current rights of tenure over its hydrocarbon permits, the Company and its controlled entities will be required to outlay amounts in respect of meeting minimum expenditure requirements of the relevant government authorities. These permit obligations may vary from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations by the relevant company.

11. PAYABLES AND ACCRUALS

	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
Trade payables and accruals	1,300,900	1,257,224	161,118	97,989
Payable to dissident shareholders of Heritage Petroleum (1)	60,700	68,417	60,700	-
	1,361,600	**1,325,641**	**221,218**	**97,989**

(1)Funds held on deposit owing to shareholders of Heritage Petroleum subsequent to the acquisition in 2007 who were unable to be located.

12. INTEREST BEARING LIABILITIES

	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
Current				
Convertible Note				
-Debt component at amortised cost	931,797	848,533	931,797	848,533
Loan from controlled entity	-	-	5,448,084	3,887,413
	931,797	**848,533**	**6,379,881**	**4,735,946**
Non-Current				
Convertible Note				
-Debt component at amortised cost	35,092,315	33,557,827	35,092,315	33,557,827
	35,092,315	**33,557,827**	**35,092,315**	**33,557,827**

Convertible notes:

On 28 December 2007, European Gas issued Convertible Notes to Transcor Astra Group a subsidiary of Compagnie Nationale à Portefeuille S.A. (a European based business group) to fund its acquisition of Gazonor and for working capital purposes.

The Notes were issued in two tranches:

- Tranche A: 14,500 Notes @ €1,500 each totalling €21.750 million; and
- Tranche B: 9,750 Notes @ €1,500 each totalling €14.625 million.

The terms of the Notes are:

- Maturity: 36 months from the date of issue
- Applicable currency: Euro (€)
- Coupon rate:
  - Tranche A: 5% p.a. of nominal value;
  - Tranche B: 5% p.a. initially since 28 December 2007.
- Interest payment:
  - For Tranche A: paid quarterly;
  - For Tranche B: at redemption or conversion, the interests being capitalised and added to the nominal value of the Note.

12. INTEREST BEARING LIABILITIES (CONT'D)

- Conversion right: Note-holder has the right to convert all or part of the Notes to ordinary shares of European Gas:
  - For Tranche A: anytime after 41^{st} day of the issue and 7^{th} day before maturity;
  - For Tranche B: anytime after Convertibility Event and 7^{th} day before maturity.

- Conversion price: €0.75 per Note.
- Conversion ratio: Nominal value divided by conversion price.
- Redemption at maturity: All outstanding Notes at maturity shall be redeemed in cash.
- Other terms: Provisions have been made in the agreement to guard Note-holder's interest with respect to issue of additional shares, bonus shares, and dividends during the period up to maturity/conversion.

<u>Tranche A Notes</u>: The Notes have been classified as a compound financial instrument containing both liability and equity components represented by the fixed rate note and the option to convert into ordinary shares of European Gas. The equity component of €2,620,073 represents the residual amount after deducting from the fair value of the Notes as a whole (€21,750,000) the amount of €19,129,927, which has been separately determined to be the fair value of the liability component.

The measurement of the fair value of the liability component was determined using a discounted cash flow analysis applying a discount rate of 10%, which was deemed to be the prevailing market interest rate for similar bonds with no conversion rights. The liability component is subsequently measured at amortised cost using the effective interest method for future periods.

<u>Tranche B Notes</u>: The Notes have been classified as a straight debt instrument with no equity component. This has been determined as the terms of the equity conversion option of the Tranche B Notes contain various hurdles that would prevent the holder from converting at any time during the terms of the Notes.

Transaction costs measured at amortised cost using the effective interest rate method have been off-set against the liability components of both Tranches. Transaction costs of €148,578 were incurred in relation to the issue of the Notes with €137,857 deducted against the liability components and €10,701 were deducted against the equity component in relation to the Tranche A Notes on initial recognition on the basis there was an equity component recognised.

Loan from controlled entities:
On 2 July 2008, the parent entity entered with a loan agreement with wholly owned subsidiary EGSAS in order to fund the exploration, evaluation and development expenses of the exploration permits. The key terms of the loan agreement are:

- The loan is repayable at call;
- The loan is unsecured; and
- The interest rate is fixed on a trimester basis @ Euribor plus 1%.

13. PROVISIONS

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
Provision for asset restoration and rehabilitation				
Balance at the beginning of the year	2,382,499	-		
-at acquisition of Gazonor SA	-	2,255,308	-	-
-amortisation of provisions	646,552	127,191	-	-
Balance at the end of the year	3,029,051	2,382,499	-	-

The restoration and rehabilitation provisions relate to the estimated costs associated with the restoration and rehabilitation of the Gazonor sites that will be incurred at the conclusion of the economic life of the asset. Independent estimates from third party companies have been sort for the work need for restoration and rehabilitation, these values are reassessed each year and any adjustments are recorded in the provisions. The methodology used in determining the provision is further detailed in Note 1C (xxii)

14. CONTRIBUTED EQUITY

As at 30 June 2009 there were 199,155,662 fully paid ordinary shares on issue. (2008: 199,155,662)

Movement in contributed equity

	Economic Entity			
	2009	2008	2009	2008
	€	€	Number	Number
At the beginning of the reporting period	31,281,424	28,691,820	199,155,662	198,155,662
Shares issued during the year				
- Shares issued on conversion of options	-	59,800	-	1,000,000
Equity component of convertible notes	-	2,609,373	-	-
Effect of translation to presentation currency	-	(79,569)	-	-
At reporting date	**31,281,424**	**31,281,424**	199,155,662	199,155,662

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Issued Options

As at 01 July 2008 there were 16,563,769 options outstanding, during the year 7,063,769 options lapsed in accordance with their terms.
The following options to issue ordinary shares were on issue as at 30 June 2009, (refer Note 15 for details on share based payments and employee share option plan). All options outstanding are over unissued shares in European Gas Limited.

Economic Entity and Parent Entity

	Number	Exercise price
Unlisted options		
- 15 April 2010	2,750,000	$1.50
- 28 November 2010	4,000,000	$1.50
- 15 April 2012	2,750,000	$2.50
	9,500,000	

For information relating to the European Gas Limited employee options plans, including details of options issued, exercised and lapsed during the financial year and options outstanding at year-end refer to Note 15 Share-based Payments.

15. SHARE BASED PAYMENTS

The following share-based payments arrangements existed at 30 June 2009

The company established the European Gas Limited (formerly Kimberley Oil NL) Share Option Incentive Plan in 2000 (Plan). The board in its absolute discretion may invite eligible participants to join the Plan based on its assessment of the prospective participant's contribution to the performance of the group. The total number of Shares to issue upon exercise of Options subject to the Plan at any time, together with any other shares which may be issued under, or which are the subject of, any other of the company's employees share or option incentive schemes, shall not represent more than 10% of the number of the shares on issue in the company at the time of the issue of the options under the Plan. The terms and conditions applicable to options granted will be as determined from time to time by the board in its absolute discretion at the time of the grant of the option's and options may be granted upon different terms and conditions to those applicable to any other options granted.

In general meeting in November 2006 the company approved the renewal and upgrade of the Employee Share Option Plan ("Incentive Plan") to ensure it complied with listing rule 7.2 of the Australian Stock Exchange and to ensure the Incentive Plan continued to meet the future objectives of the company. The grant of options is designed to encourage the recipients to have a greater involvement in the achievement of the company's objectives and to provide an incentive to directors by participating in the future growth and prosperity of the company through share ownership.

Pursuant to shareholder approval in general meeting in November 2006 the Company approved the grant of a second series of Director Options (Series A and B). A total of 8,000,000 Director Options were approved. The exercise price of the options is $1.00 and $1.50 each for Series A and Series B Director Options respectively. The Series A Director Options are exercisable at any time on or prior to the date which is 2 years after the date of the meeting to approve the grant of the options. The Series B Director Options are exercisable at any time on or prior to the date which is 4 years after the date of the meeting to approve the grant of the options.

In April 2008 the Company approved the grant of Employee Options (Tranche 1 and Tranche 2). A total of 3,000,000 Employee Options were approved. The exercise price of the options is $1.50 and $2.50 each for Tranche 1 and Tranche 2 Employee Options respectively. The Tranche 1 Employee Options are exercisable at any time on or prior to the date which is 2 years after the date of granting of the options. The Tranche 2 Employee Options are exercisable at any time on or prior to the date which is 4 years after date of granting of the options.

Except in prescribed circumstances, all options lapse on the day that is 20 business days after the termination of employment or office of the option holder. The options in each of the abovementioned series were fully vested from the date of grant and are un-listed and contain restrictions on transfer.

All options granted to directors and employees in European Gas Limited*,* which confer a right of one ordinary share for every option held.

	Economic and Parent Entity			
	2009		2008	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	**11,000,000**	**1.455**	**9,000,000**	**1.122**
Granted	-	-	3,000,000	2.000
Lapsed	5,500,000	1.27	-	-
Exercised	-	-	1,000,000	0.100
Outstanding at year-end	**5,500,000**	**1.64**	**11,000,000**	**1.455**
Exercisable at year-end	**5,500,000**	**1.64**	**11,000,000**	**1.455**

The options outstanding at 30 June 2009 had a weighted average exercise price of $1.64 and a weighted average remaining contractual life of 1.5 years. Exercise prices range from $1.50 to $2.50 in respect of options outstanding at 30 June 2009.

16. RESERVES

Economic entity	Option valuation reserve €	Foreign currency translation reserve €	Available for sale investments reserve €	Total €
For the year ending 30 June 2008				
Balance at the beginning of the year	1,164,797	306,221	(175,415)	1,295,603
Options granted during the year	527,936	-	-	527,936
Movement in Available for sale Investments reserve	-	-	175,415	175,415
Effect of translation to presentation currency	-	(342,103)	-	(342,103)
At 30 June 2008	**1,692,733**	**(35,882)**	**-**	**1,656,851**
For the year ending 30 June 2009				
Balance at the beginning of the year	1,692,733	(35,882)	-	1,656,851
Movement during the year	-	-	-	-
At 30 June 2009	**1,692,733**	**(35,882)**	**-**	**1,656,851**

Parent Entity				
For the year ending 30 June 2008				
Balance at the beginning of the year	1,164,797	1,149,164	(175,415)	2,138,546
Options granted during the year	530,221	-	-	530,221
Movement in Available for sale Investments reserve	-	-	166,320	166,320
Effect of translation to presentation currency	(2,285)	(1,149,164)	9,095	(1,142,354)
At 30 June 2008	**1,692,733**	**-**	**-**	**1,692,733**
For the year ending 30 June 2008				
Balance at the beginning of the year	1,692,733	-	-	1,692,733
Movement during the year	-	-	-	-
At 30 June 2009	**1,692,733**	**-**	**-**	**1,692,733**

Nature and purpose of reserves:

Option valuation reserve
The option valuation reserve represents the fair value attaching to the unexercised options. As options are exercised the reserve is reduced and contributed equity is increased.

17. ACCUMULATED LOSSES	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
Accumulated losses at the beginning of period	(9,500,286)	(5,388,471)	(6,935,384)	(4,460,022)
Effect of translation to presentation currency	-	(355,302)	-	(145,303)
Profit/(loss) attributable to the members of the parent entity	(5,545,254)	(3,756,513)	(3,042,287)	(2,330,059)
Accumulated losses at the end of period	(15,045,540)	(9,500,286)	(9,977,671)	(6,935,384)

18. CASH FLOW INFORMATION	ECONOMIC ENTITY 2009 €	ECONOMIC ENTITY 2008 €	PARENT ENTITY 2009 €	PARENT ENTITY 2008 €
(a) RECONCILIATION OF CASH				
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:				
Cash at Bank	2,208,880	8,625,984	167,463	334,351
Cash guarantees held at bank	110,728	190,000	-	-
	2,319,608	8,815,984	167,463	334,351
(b) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX				
Loss from ordinary activities after income tax	(5,545,254)	(3,756,513)	(3,042,287)	(2,330,059)
Non-cash flows in loss from ordinary activities				
Depreciation of non-current assets	388,008	31,449	3,048	16,264
Amortisation of non-current assets	779,698	1,589,326	-	-
Foreign Exchange (Gains)/Losses	(72,974)	(231,012)	72,264	(1,988)
Staff options valuation	-	530,221	-	530,221
Amortisation of financial liabilities	1,617,751	789,291	1,617,751	789,291
Profit on sale of fixed assets	-	(445,564)	-	(445,564)
Loss on sale of fixed assets	33,846	29,042	29,609	29,042
Interest & management fees (charged to subsidiaries)	-	-	(1,799,607)	(1,417,832)
Diminution of Investment	236,690	360,262	236,690	360,262
Write-offs	21,142	-	-	-
Changes in assets and liabilities				
(Increase)/decrease in trade receivables	655,836	328,572	42,856	3,644
Increase/(decrease) in trade and other creditors	(397,437)	168,333	123,830	356,960
(Increase)/decrease in other current assets/prepayments	(34,260)	-	-	-
(Increase)/decrease in inventory	(26,597)	-	-	-
Increase/(decrease) in provisions	646,551	-	-	-
Cash Flows From /(Used in) Operations	**(1,696,999)**	**(606,593)**	**(2,715,847)**	**(2,109,759)**
(c) CREDIT STANDBY ARRANGEMENTS WITH BANKS				
Credit facility – bank overdraft	143,775	152,400	143,775	152,400
Amount used	-	-	-	-
Unused and available credit facility	**143,775**	**152,400**	**143,775**	**152,400**

19. CONTINGENT LIABILITIES

Since the last annual report date, there has been no material change of any contingent assets or contingent liabilities. The contingent liability disclosed in the last annual report is still in existence and is detailed below:

On June 28, 2002, Gazonor entered into a contract with Société Artésienne de Vinyle ("SAV") for the supply of mine gas to SAV. On April 12, 2007, Gazonor gave notice to SAV of its intent to terminate supply following expiration of the three-month notice period required under the contract, in the event of failure by the parties to agree upon a new rate applicable to the future supply of mine gas.

On July 10, 2007, in light of SAV's refusal to pay outstanding supply invoices, Gazonor summoned SAV before the Commercial Chamber of the Béthume District Court, demanding payment of €410,288 in unpaid invoices and €100,000 in damages.

On July 12, 2007, SAV in turn summoned Gazonor before the same court, demanding compensation for operating losses sustained in an amount of €1,456,330. This amount was subsequently increased to €1,940,555 by SAV.

In a judgment dated March 5, 2008, the Commercial Chamber of the Béthune District Court ordered the joinder of the two proceedings and dismissed Gazonor's claim, declaring Gazonor liable for the termination of the gas supply contract as well as for the resulting losses suffered by SAV. The District Court postponed the hearing of the claim to a later date in order to assess the losses suffered by SAV.

On April 3, 2008, Gazonor filed an appeal of the judgment dated March 5, 2008 before the Douai Court of Appeals. In light of the pending appeal, the Béthume District Court has postponed assessing the losses claimed by SAV until a decision is made on appeal.

In its brief filed on August 4, 2008, Gazonor demanded that the Douai Court of Appeals overturn the Béthune District Court decision dated March 5, 2008 and that it find SAV liable for the payment of €410,591 plus €100,000 in damages.

Gazonor filed conclusions at the Douai Appeal Court on February, 5th 2009.
In turn, SAV filed their conclusions at the Douai Appeal Court on May, 14th 2009, leaving the demanded amount unchanged. Subsequently, Gazonor has filed conclusions at the court on September, 10th 2009, replying to SAV's brief. Gazonor has increased its demand for damages to €300.000.

Independently of any of the arguments raised by the Company before the Douai Court of Appeals, the company considers that, even if it is found liable in connection with this litigation, such a judgment would allow it to make a claim for breach of the warranties agreed to by the seller of Gazonor, Filianor or its parent company Charbonnages de France, in the context of the acquisition. This has been notified to Filianor on the 28th March by EG SAS.

20. AUDITORS REMUNERATION

	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	€	€	€	€
- auditing services				
○ PKF - Australia	57,025	44,665	57,025	42,065
○ PKF - France	38,150	17,000	-	-
○ PKF – United Kingdom	14,836	-	-	-
○ Haines Watts	-	10,806	-	-
	110,011	72,471	57,025	42,065
- other services				
○ PKF - Australia	78,807	37,199	78,807	71,058
○ PKF - France	-	37,269	-	-
○ PKF – United Kingdom	18,527	-	-	-
○ Haines Watts		2,364	-	-
	97,334	76,832	78,807	71,058
Total Auditors Remuneration	207,345	149,303	135,832	113,123

21. SEGMENT REPORTING

The Group operates predominantly in the exploration for commercial coal bed and coal mine methane deposits, and the production of coal mine methane in Europe and as such only operates within one business segment (refer to Note 1C (xxiv)).

22. SUPERANNUATION COMMITMENTS (LEVY)

European Gas Limited has an arrangement, with Optimum Corporate Tyndall Superannuation Ltd (Trustee) as a participating employer under the Trust Deed whereby it nominates employees for whom superannuation is to be provided. The fund is registered as the Optimum Superannuation Master Plan and is a complying superannuation fund.

Eligible employees are invited to join the Fund and are entitled to varying benefits on retirement, disability or death. The end benefit is determined by the members' accumulation of contributions and earnings of the fund. The economic entity makes contributions to the fund currently at the rate of 9% of gross salaries and wages for those employees who have joined the fund. The company has no other liability to the Trustee other than the remittance of the superannuation contributions.

The economic entity also makes contributions to other unrelated funds on behalf of other employees who by their own choice have nominated alternative funds to receive the superannuation contributions.

These contributions are legally enforceable in Australia.

23. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration Report on pages 10 to 15.

Other transactions with the Company or its controlled entities

There were no other transactions with specified directors or their personally related entities.

24. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

i. European Gas Limited makes periodic unsecured advances, repayable on demand, to its wholly owned subsidiaries:
ii. European Gas Limited charged interest of €1,972,969 (2008: €1,417,832) to controlled entities at commercial rates on the average monthly balances outstanding on unsecured loans.
iii. European Gas Limited paid interest of €1,087,500 (2008: €552,615) to Transcor Astra Group, of which Mr Gauthier De Potter is an executive director.

Other key management disclosures are contained within the Remuneration Report.

24. RELATED PARTY TRANSACTIONS (CONT'D)

European Gas Limited is the parent entity of the economic entity.

	Income recognised	*Expenses recognised*	*Balances receivable*	*Balances payable*
For year ended 30 June 2009	€	€	€	€
ECONOMIC ENTITY				
Transcor Astra Group	-	2,705,251	-	36,024,111
	-	2,705,251	-	36,024,111
PARENT ENTITY				
Transcor Astra Group	-	2,705,251	-	36,024,111
	-	2,705,251	-	36,024,111
For year ended 30 June 2008				
ECONOMIC ENTITY				
Transcor Astra Group	-	1,319,178	-	34,406,360
	-	1,319,178	-	34,406,360
PARENT ENTITY				
Transcor Astra Group	-	1,319,178	-	34,406,360
	-	1,319,178	-	34,406,360

25. EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2009 was based on the loss attributable to ordinary shareholders of €5,545,254 (2008: loss of €3,756,513) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 199,155,662 (2008: 198,815,936), calculated as follows:

		Economic Entity	
		2009	**2008**
		€	**€**
a.	Loss attributable to ordinary shareholders		
	Loss used in the calculation of basic and dilutive EPS	5,545,254	3,756,513
		Number	**Number**
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	199,155,662	198,815,936
	Weighted average number of dilutive options outstanding	-	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	199,155,662	198,815,936

25. EARNINGS PER SHARE (CONT'D)

	Number	Number
c. Potential ordinary shares that are not dilutive and are excluded from the weighted average number of shares for the purposes on diluted earnings per share		
Convertible notes	48,500,000	48,500,000
	48,500,000	48,500,000

26. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS:

		Economic Entity		Parent Entity	
		Carrying amount	Fair Value	Carrying amount	Fair Value
At 30 June 2009	**Note**	**€**	**€**	**€**	**€**
Cash and cash equivalent	a	2,319,608	2,319,608	167,463	167,463
Trade and other receivable	a	1,116,864	1,116,864	36,491	36,491
Receivable from subsidiaries	c	-	-	35,045,391	NA
Available for sale financial assets	b	254,567	254,567	254,567	254,567
Trade and other payables	a	(1,361,600)	(1,361,600)	(221,817)	(221,817)
Loan from subsidiaries	c	-	-	(5,448,084)	NA
Interest bearing liabilities	d	(36,024,112)	NA	(36,024,112)	NA

		Economic Entity		Parent Entity	
		Carrying amount	Fair Value	Carrying amount	Fair Value
At 30 June 2008	**Note**	**€**	**€**	**€**	**€**
Cash and cash equivalent	a	8,815,984	8,815,984	334,351	334,351
Trade and other receivable	a	1,772,700	1,772,700	79,346	79,346
Receivable from subsidiaries	c	-	-	34,182,006	NA
Available for sale financial assets	b	677,225	677,225	677,225	677,225
Trade and other payables	a	(1,325,641)	(1,325,641)	(97,989)	(97,989)
Loan from subsidiaries	c	-	-	(3,887,413)	NA
Interest bearing liabilities	d	(34,406,360)	NA	(34,406,360)	NA

a) The carrying amounts closely approximate their fair values on account of the short maturity cycle.

b) Fair value has been determined by applying the closing bid price at reporting date

c) The parent entity does not monitor or report on the fair value of balances receivable from / payable to subsidiaries, as these subsidiaries are 100% controlled by the parent.

d) The fair value of interest bearing liabilities has not been determined as the group does not intend to trade in these financial instruments.

26. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

a) *CREDIT RISK*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of managing risk by only dealing with creditworthy counterparties, all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are assessed for each individual customer and are regularly monitored.

The Group monitors the risk by ensuring all receivables are delivered to the group as stated within the related contractual agreements, thus allowing effective debt recovery. The group also submits on a regular basis claims for receivables from government agencies with respect to monies owing from GST and VAT related transactions.

The Group does not differentiate the policy it implements as a group with regards to receivables owing from subsidiaries.

The carrying amount of financial assets recorded in the balance sheet, represents the Group's maximum exposure to credit risk.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, and trade and other receivables.

	Economic Entity		**Parent Entity**	
	2009	**2008**	**2009**	**2008**
	€	**€**	**€**	**€**
Maximum Credit Risk - External	1,116,864	1,772,700	36,491	79,346
Maximum Credit Risk - Subsidiaries			35,045,391	34,182,006
	1,116,864	**1,772,700**	**35,081,882**	**34,261,352**

b) *LIQUIDITY RISK*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Groups liquidity risk management policy has built an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities through the monitoring of future cash flow forecasts of all its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The Group does not differentiate the policy it implements as a group with regards to liquidity risk management towards its subsidiaries.

26. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

The following are the contractual maturities of the financial liabilities.

At 30 June 2009	Up to 6 months €	6 - 12 months €	1 - 3 years €	Total €
ECONOMIC ENTITY				
Trade and other payables	1,361,600	-	-	1,361,600
Convertible note - interest and principle	543,750	543,750	39,224,016	40,311,516
	1,905,350	**543,750**	**39,224,016**	**41,673,116**
PARENT ENTITY				
Trade and other payables	221,817	-	-	221,817
Payable to subsidiaries	5,448,084	-	-	5,448,084
Convertible note - interest and principle	543,750	543,750	39,224,016	40,311,516
	6,213,651	**543,750**	**39,224,016**	**45,981,417**

At 30 June 2008	Up to 6 months €	6 - 12 months €	1 - 3 years €	Total €
ECONOMIC ENTITY				
Trade and other payables	1,325,641	-	-	1,325,641
Convertible note - interest and principle	543,750	543,750	40,311,516	41,399,016
	1,869,391	**543,750**	**40,311,516**	**42,724,657**
PARENT ENTITY				
Trade and other payables	97,988	-	-	97,988
Payable to subsidiaries	3,887,414	-	-	3,887,414
Convertible note - interest and principle	543,750	543,750	40,311,516	41,399,016
	4,529,152	**543,750**	**40,311,516**	**45,384,418**

c) *INTEREST RATE RISK*

The Groups income and operating cashflows are substantially independent of changes in market interest rates. The Groups only interest rate risk arises from the return received on cash assets deposited.

The Groups policy is to frequently monitor its cash assets held and ensure that the most favourable level of return is achieved via depositing funds accordingly.

Group cash assets held

	Economic Entity		**Parent Entity**	
	2009	**2008**	**2009**	**2008**
	€	**€**	**€**	**€**
Cash	2,319,608	8,815,984	167,463	334,351

26. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

Effect of change in interest rates

	Interest Rate Change	Impact on Profit and Loss: Economic Entity	Impact on Profit and Loss: Parent Entity
	+/-%	+/- (€)	+/- (€)
2009	1.00	23,196	1,675
2008	1.00	88,160	3,344

Based on the current market interest rate scenario, management considers that a movement of 1% could reasonably be expected within the next 12 months.

d) *FOREIGN CURRENCY RISK*

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency. The functional currency of the group is denominated is Euros as the Group is predominantly exposed to European economic environment. This has reduced the effect of foreign currency risk to the Group.

The Groups policy is to maintain and hold the sufficient foreign currency to meet its liabilities when due. Surplus financial assets are transferred and held within Euro currency based financial products.

Unhedged amounts receivable / payable in foreign currency	Economic Entity		Parent Entity	
	2009	**2008**	**2009**	**2008**
	€	**€**	**€**	**€**
Cash	167,463	334,351	167,463	334,351
Current – receivables	36,491	79,346	36,491	79,346
Financial assets	254,567	677,225	254,567	677,225
Current – payables	(211,219)	(97,988)	(211,219)	(97,988)
	247,302	**992,934**	**247,302**	**992,934**

Effect of change in foreign exchange rates

	FX Rate Change	Impact on Profit and Loss: Economic Entity	Impact on Profit and Loss: Parent Entity
	+/-%	+/- (€)	+/- (€)
2009			
AUD/EUR	10.00	67,393	67,393
2008			
AUD/EUR	10.00	99,293	99,293

Exchange rate at reporting dates are 0.5751 (2009) and 0.6096 (2008)

Using a sensitivity movement of 10%, the impact on profit and loss can be clearly seen. The maximum deviation of the foreign exchange rate during the period has been approximately 15% from the 2008 value. As the foreign currency rates for AUD/EUR has been stabilised towards the latter half of 2009, the management considers a movement of 10% as reasonable expectation.

26. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

e) *COMMODITY PRICE RISK*

The Group is exposed to commodity price risk on the revenue received from its sales of gas. Contracts are in place for the procurement of gas produced at the Gazonor production facility.

The Groups policy is to enter into favourable arrangements through negotiation with third parties ensuring that long term cash inflows can be generated for the group.

Gas prices are set as per the conditions of the individual contracts and are correlated to the market prices being received for such sales.

Effect of change in commodity price of gas		Impact on Profit and Loss	
	Price Change +/-%	Economic Entity +/- (€)	Parent Entity +/- (€)
2009	10.00	812,159	0
2008	10.00	367,919	0

The gas prices in the market have declined towards the close of the 2009 financial year end. The gas prices are sensitive to the seasonal weather movements. The demand peaks during the winter seasons in Western Europe, being November to February each year. And demand troughs during the summer seasons, being June to September.

Considering the past experience of market price volatility, management considers 10% movement to be a reasonable estimate.

f) *EQUITY PRICE RISK*

The Group holds investments in two listed entities, and as such these are subject to varying valuations based on their current market price. The carrying value of these assets in the balance sheet represents the closing price of these entities at balance sheet date.

As the Group is not involved in the activity of pursuing investments in listed entities and has only acquired such assets through receiving them in consideration for prior sales of Group assets, the policy is to hold any investments until a sale can be achieved that would give the Group a reasonable cash asset.

	Economic Entity		Parent Entity	
	2009 €	2008 €	2009 €	2008 €
Available for sale financial assets	254,567	677,225	254,567	677,225

Effect of change in equity prices		Impact on Profit and Loss	
	Price Change +/-%	Economic Entity +/- (€)	Parent Entity +/- (€)
2009	10.00	25,457	25,457
2008	10.00	67,723	67,723

Using a sensitivity movement of 10%, the impact on profit and loss can be clearly seen. This reflects a realistic movement given the assets are listed entities, and the fair value volatility that occurred during the period.

26. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

g) CAPITAL RISK MANAGEMENT

The Economic Entity ensures effective management of its capital structure so that it will be able to continue as a going concern.

The Economic Entity's capital structure consists of cash and cash equivalents and equity attributable to the holders of equity within the Parent Entity, comprising issued capital and reserves as disclosed in the Statement of Changes in Equity. As is similar with many other exploration companies, finances are raised through the parent entity for the economic entity's exploration and appraisal activities in discrete tranches. The overall strategy of Economic Entity's remains consistent and unchanged from that of 2008.

27. CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%) 2009	2008
(a) Controlled entities and their contribution to consolidated loss			
Parent Entity:			
- European Gas Limited	Australia		
Subsidiaries of European Gas Limited:			
- Otto Oil Pty Ltd	Australia		100
- European Gas S.A.S.	France	100	100
- Gazonor S.A.	France	100	100
- European Gas Limited (UK)	United Kingdom	100	100
- Heritage Petroleum plc	United Kingdom	100	100
- European Gas Benelux S.A.	Belgium	50	

Note: European Gas Limited (UK) was incorporated in the United Kingdom on 1/1/2005 to hold and manage the company's European exploration and development operations. A branch of the company is also registered in France.

On 1 February 2007 the company acquired Heritage Petroleum plc for a consideration of fully paid shares, options and cash. Heritage Petroleum holds 25% equity in the three French licenses and currently 100% of the three Tuscany applications.

European Gas S.A.S. was incorporated in France 27 November 2007 to acquire Gazonor S.A.

Otto Oil Pty Ltd was de-registered in Australia on 4 September 2008.

European Gas Benelux S.A. is a joint venture incorporated in Belgium. Transcor Astra Group SA holds a 50% equity share in the entity.

28. BUSINESS COMBINATION

On 28 December 2007, European Gas Limited acquired 100% of the voting shares of Gazonor S.A, a company incorporated in France, which was owned by Filianor S.A., a wholly owned subsidiary of Charbonnages de France, the French state owned Coal Mining Corporation.

The total cost of the combination was €26,992,213. The Group funded this transaction via the issue of convertible notes.

The fair value of the identifiable assets and liabilities of Gazonor S.A. as at the date of acquisition are:

	CONSOLIDATED	
	Recognised on acquisition	Carrying value
	€	€
Cash and cash equivalents	334,417	334,417
Trade receivables	1,177,261	1,177,261
Inventories	277,741	277,741
Property Plant & Equipment	3,530,975	3,530,975
Customer contracts	2,320,550	-
	7,640,944	**5,320,394**
Trade payables	463,007	475,082
Provision for rehabilitation	3,399,819	3,399,819
Deferred tax liability	796,645	-
	4,659,471	**3,874,901**
Fair value of identifiable net assets	**2,981,473**	
Goodwill arising on acquisition	24,010,740	
	26,992,213	
Cost of the combination:		
Cash consideration paid to the vendor	26,200,000	
Costs associated with the acquisition	792,213	
Total cost of the combination	**26,992,213**	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	334,417	
Cash paid	(26,200,000)	
Costs associated with the acquisition	(792,213)	
Net cash outflow	**(26,657,796)**	

As disclosed at the previous reporting date additional information was required to be obtained in relation to provisions for maintenance items for the servicing of plant and equipment, and thus was excluded from the calculation. This information has now been sourced and clarified, and in accordance with AASB 3 the business combination has now been finalised within 12 months of acquisition date. The additional information affected an increase of €1,144,511 in the recognised assets and an increase in the provision for rehabilitation of €1,144,511. There has been no change in the overall calculation of Goodwill arising upon the acquisition.

29. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events have occurred between the reporting date and the date of this financial report:

a. The composition of the Board has been revised during the period subsequent to the reporting date. Mr. Terence Willsteed and Mr. Alan J Flavelle have resigned from the Board, and Mr. Julien Moulin, Mr. Rod Bresnehan, and Mr. Sebastian Hempel have joined the Board as non-executive directors;

b. The consolidated entity has entered into an equity funding agreement with an US based institution to raise up to A$10 million (approximately €6 million) anytime within the next 5 years. The shares would be subscribed at 98% of the average market price over a 10 day trading period, and a commission of 4% is payable upon each drawdown;

c. The consolidated entity entered into a heads of agreement with an European based energy company to seek commercial arrangement for potential development of electricity generation projects at Gazonor;

d. The consolidated entity entered into a head of agreement with an Australian listed company to explore joint venture and farm-in arrangements for the Gardanne, St Etienne, and Tuscany areas in France and Italy.

e. The consolidated entity issued 14,200,000 shares at a placement price of A$0.17 each raising A$2.414 million. The placement being completed in two tranches with the issuance of 7,100,000 shares on 29 September 2009 and 7,100,000 shares on 15 October 2009. The placement will be made to Maoming Fund who will move from an interest in the Company of 14.30% to 19.98%, once completed.

COMPANY DETAILS

The Head Office of the company is:

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Telephone +33 1 47 42 14 00
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The Registered Office of the company is:

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AUSTRALIA
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DIRECTORS' DECLARATION

The directors of European Gas Limited declare that:

(a) in the directors' opinion the financial statements and notes on pages 17 to 60 and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 10 to 15, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2009 and of their performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(B); and

(c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and

(d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2009, required by Section 295A of the Corporations Act 200.

Signed in accordance with a resolution of the directors

On behalf of the Board

ANTHONY J MCCLURE – MANAGING DIRECTOR

Dated at Paris, France this 29 day of September 2009

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EUROPEAN GAS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of European Gas Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both European gas Limited and of the consolidated entity. The consolidated entity comprises the entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the European Gas Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(B), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of European Gas Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the entity's and consolidated entity's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(B).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of European Gas Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Acts 2001*.

PKF
Chartered Accountants

Chris Nicoloff
Partner

Dated at Perth, Western Australia this 29th day of September 2009