

## QUARTERLY REPORT

September 2009

## HIGHLIGHTS

### Gazonor, France

- Gas sales of 27,768 MWh (99,965 GJ) for the quarter.
- Gas prices (ave.) for the quarter of €14.24 per MWh (€3.96 per GJ).

### Well Test Program

- Re-commencement of the well test programme at Lorraine.

### General

- Joint venture entered into covering the Gardanne Project in Southern France.
- A\$10 million finance facility secured.
- Placement undertaken to raise A\$2.414 million.

### Corporate

- Change in Board structure.
- Change in Management – Strategic and organisational review underway

### Company Information

#### Board of Directors

Julien Moulin (Acting Managing Director)  
Rod Bresnehan (Non Executive Director)  
Sebastian Hempel (Non Executive Director)  
Gauthier De Potter (Non Executive Director)

#### Company Secretary

Mark E Pitts

**ASX Code:** EPG  
**Shares on Issue:** 213,944,359  
**Conv. Notes<sup>1</sup>:** 48,500,000  
**Options:** 9,500,000

<sup>1</sup> 24,250 notes converting to 48,500,000 fully paid ordinary shares subject to customary adjustment to provisions. Expiry end Dec 2010.

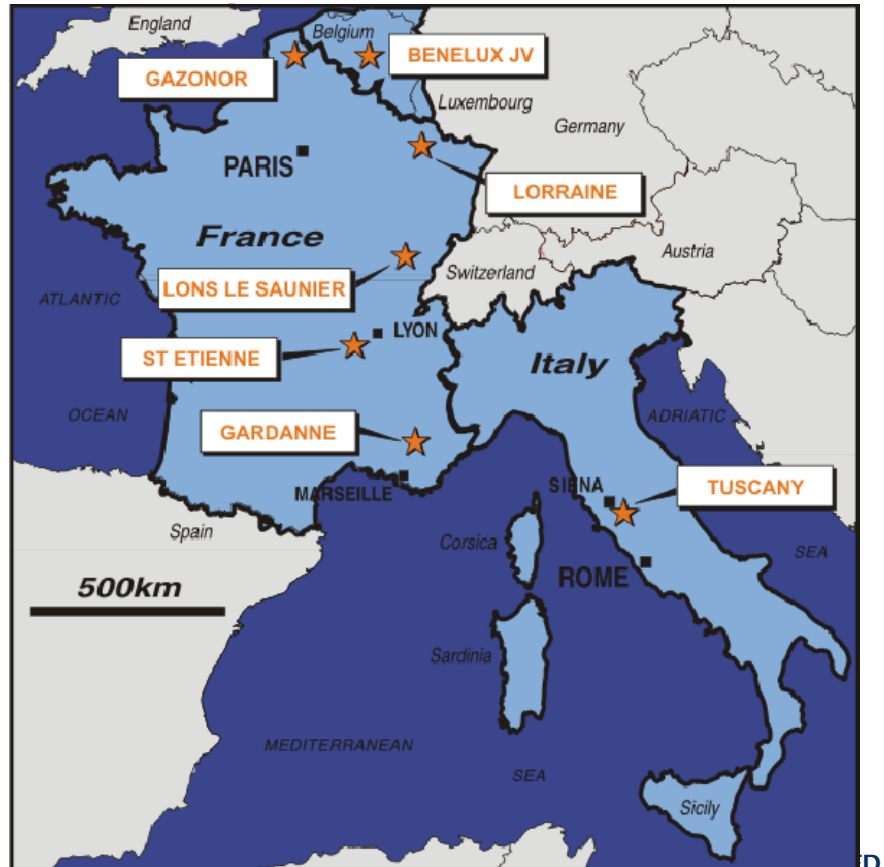


Figure 1: Projects Location Map

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## WELL TEST PROGRAM

During the quarter European Gas announced the re-commencement of the well test work and drilling activities at the French projects. Commencing in November 2009, the immediate program allows for continued testing of the multi-lateral well in Lorraine

At Gazonor the Company plans to access previously drilled wells and conduct testing to evaluate the potential for improved recovery and incremental production of coal mine methane (“CMM”).

Re-commencement  
of the well test  
programme at  
Lorraine

## GAZONOR

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

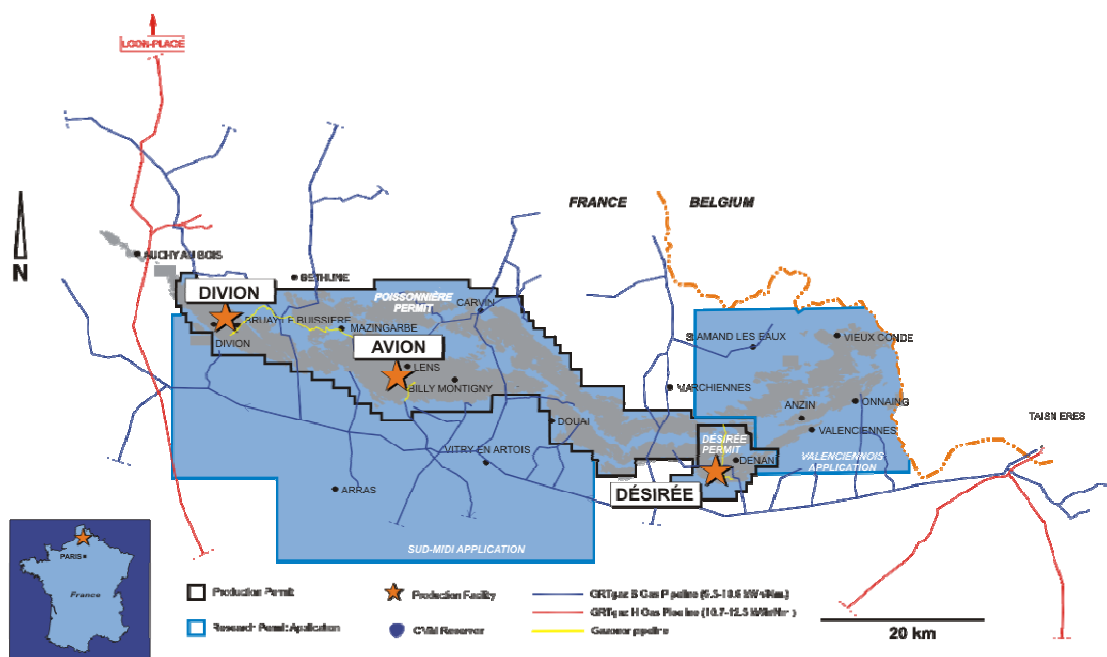


Figure 2: Gazonor Project Location Map

## **Gas Sales**

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

Sales		Average Price Received	
MWh	GJ	€/MWh	€/GJ
27,768	99,965	14.24	3.96

**Gas sales of 27,768 MWh (99,965 GJ) for the quarter**

Gas sales for the quarter were decreased compared to the June quarter 2009 (gas sales 81,031 MWh (291,711 GJ)) due to typical seasonal variations of the summer months where less gas can be injected into the national grid and necessary third party network maintenance.

Sale price for the September quarter averaged approximately €14.24 per MWh or €3.96 per GJ (approximately A\$23.03 per MWh or A\$6.40 per GJ).

**Average sale price of €14.24 per MWh or €3.96 per GJ**

Revenues for the quarter totalled €0.4 million (A\$0.6 million).

## **Gas Price Outlook**

For the December quarter of 2009, sales prices will increase and the Company currently estimates that pricing will average around €16.50 per MWh or €4.60 per GJ (approximately A\$26.70 per MWh or A\$7.45 per GJ). The Company's gas is sold under contracts with a pricing formula which smooths market volatility.

## **Exploration Programme**

Studies in the Bruay area in the west of the Poissonnière production permit indicate the existence of two structurally isolated CBM targets. The larger target has the potential to host a commercial scale CBM resource. Prior to selecting drilling locations, the Company plans a more detailed study of the Bruay targets and additional studies in other prospective parts of the concession.

The Company is evaluating opportunities to improve CMM production at the Gazonor facilities by optimizing recovery over the 767km<sup>2</sup> project. Within this large drainage area there are pressure variations which indicate scope for improving recovery. Initial testing will focus on existing well bores and infrastructure in parts of the project area where pressure drawdown shows limited connection to the main drainage system.

## LORRAINE

## Eastern France

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

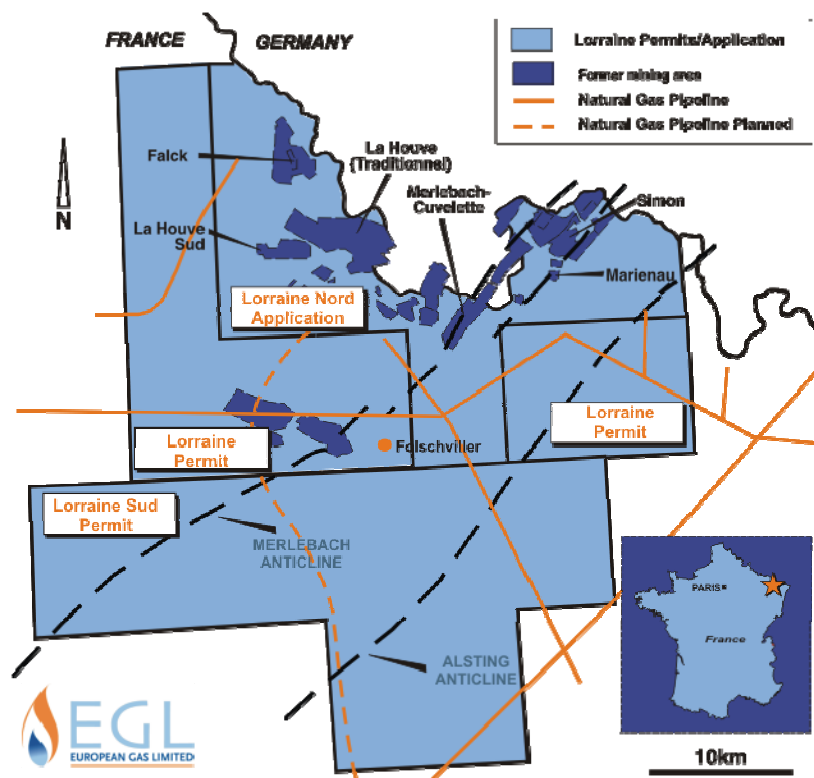


Figure 3: Lorraine Project Location Map

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

### Well Test Program

In the Folschviller 2 appraisal well, the resumption of the well test program will allow for the opening of the lower lateral and the testing of both laterals and the two sidetracks. This program is designed to allow observation of the pressures at which gas desorption commences and further evaluation of reservoir characteristics. Subject to rig availability, the program is planned for commencement in November 2009 and will run for 3 months.

# JURA (LONS-LE-SAUNIER)

# Central France

European Gas holds a 100

## Exploration Program

The 3,795km<sup>2</sup> Jura (Lons-le-Saunier) permit contains an undeveloped coalfield and two historically produced conventional natural gas fields and several other gas shows (see Figure 4.). Re-evaluation of seismic and other data indicates potential for additional conventional gas accumulations as well as potential for gas resources within the previously exploited areas.

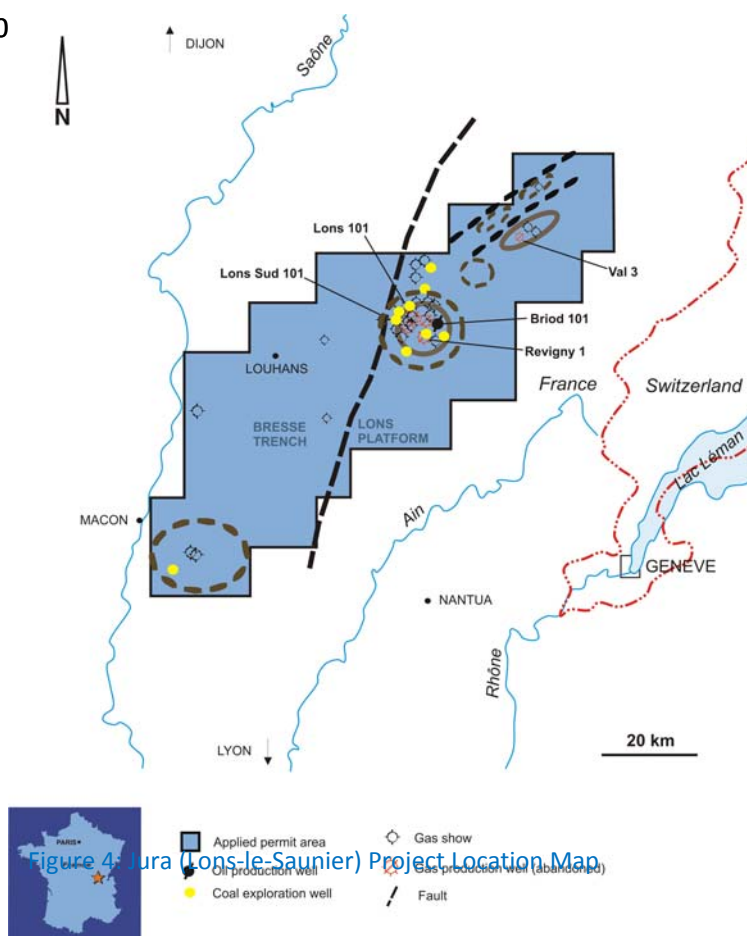


Figure 4- Jura (Lons-le-Saunier) Project Location Map

## GARDANNE

## Southern France

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

### Exploration Program

European Gas has entered into a Heads of Agreement with Future Corporation Australia Limited (ASX: FUT) with regards to a Joint Venture covering the Company's 100% owned Gardanne project.

Subject to permit renewal by the relevant French authorities, Future Corp. is required to spend a total of €1.5 million (A\$2.5 million) on the project including the drilling of one well to earn a 70% interest in the project. The principal target is coal bed methane. European Gas will be the initial Operators of the Joint Venture.

One site has been selected for exploration drilling. This could take place in Q1 2010, subject to timing of permit approval

## SAINT ETIENNE

## Central France

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

No work was conducted during the quarter.

## BENELUX JOINT VENTURE

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

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

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

## SOUTHERN TUSCANY

## Italy

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

No work was conducted during the quarter.

## CANNING BASIN

## Western Australia

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

## JOINT VENTURE

The Company entered into a Joint Venture with Future Corporation Australia Limited (“Future Corp.”) with regard to a Joint Venture in the Company’s Gardanne project.

Subject to permit renewal by the relevant French authorities, Future Corp. is required to spend a total of €1.5 million (A\$2.5 million) on the project, including the drilling of one well, to earn a 70% interest in the project. European Gas is the initial operator.

In addition, Future Corp. was granted a first right to enter an agreement to earn an interest in the Company’s Saint Etienne, France and Tuscany, Italy projects.

As part of the consideration, European Gas is to be issued 130 million fully paid ordinary shares and 100 million share options (1.5¢ expiry December 2013) in Future Corp.

The Company also received a first right of refusal over any new projects world-wide generated by Future Corp. over the next three years.

## FINANCE FACILITY

During the quarter, the Company secured an A\$10 million finance facility by entering into an Equity Line of Credit Agreement (“Agreement”) with Yorkville Advisors, LLC (“Yorkville”), a US based investment manager.

Under the terms of the Agreement, the Company may issue shares at its discretion to Yorkville at any time over a 60 month period from the date of signing up to a total value of A\$10 million. Subject to certain pricing parameters, which include the ability for the Company to set a minimum acceptable price, shares issued to Yorkville are priced on terms relative to the prevailing market price at the time of each drawdown. A commission of 4% is payable by the Company on each advance at the time the advance is made.

## PLACEMENT

During the quarter, the Company announced a placement of A\$2.414 million to Maoming Fund, a substantial shareholder in the Company. The placement was completed in two tranches subsequent to the end of the quarter. The funds will be used for working capital purposes including exploration, drilling and capital works.

**Joint Venture entered into covering the Gardanne project in southern France**

**A\$10 million finance facility secured**

**Placement undertaken to raise A\$2.414 million**

## CORPORATE

### **Change in Board Structure**

During the Quarter, the Company announced changes to the Board structure. Mr Julien Moulin, Mr Rod Bresnehan and Mr Sebastian Hempel were appointed as Non Executive Directors of the Company, and Mr Terry Willsted and Mr Alan Flavelle resigned as directors of the Company.

### **Change in Board structure**

#### **Mr Julien Moulin**

Mr Moulin is co-founder of Maoming Investment Manager Ltd, an investment management company investing globally in listed and unlisted companies with a significant focus on China. He has served as Managing Partner of the company since February 2006.

Prior appointments include investment adviser of the Global China Fund, a European-based investment fund; an Investment Manager at SKI Capital, a London-based market neutral fund; and an Investment Analyst at UBS Global Asset Management in charge of the European telecommunications sector.

Mr Moulin holds a BA in Economics and Business Sciences (hons) from Sorbonne University and a Masters Degree in Asset Management and financial markets (hons) from the University of Paris-Dauphine.

Mr Moulin has served on the board of several listed and unlisted companies and is currently on the Board of Envision Energy, a leading Chinese wind turbine manufacturer and Legend Media Inc, a Chinese media company listed in the United States.

#### **Mr Rod Bresnehan**

Mr Bresnehan is a Petroleum Reservoir Engineer with 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.

Mr Bresnehan has held various senior management positions in major Australian hydrocarbon exploration and production companies and has been a principal consultant to many coal bed methane projects and groups in Australia and internationally.

Mr Bresnehan is a member of the Society of Petroleum Engineers and is the principal of Bresnehan and Associates. He is also a director of several private companies and previously a non-executive director of Anzoil. Mr Bresnehan holds a Bachelor of Applied Science (Chemistry).

#### **Mr Sebastian Hempel**

Mr Hempel is a corporate lawyer with over 18 years of advisory experience in the listed company area with specialties in capital raisings and Australian Securities Exchange ("ASX") listings and in the resources sector. He was with commercial law firm Minter Ellison from late 1996 to early 2008 (partner since July 2000) after a period in investment banking at Macquarie Bank and working at the ASX from early 1991 to mid 1995.



Mr Hempel is a non-executive director of Prosperity Resources Ltd, a member of the Council of The Armidale School, an Executive Director of Sydney law practice Greenwich Legal, and a director of Conchita Nominees Pty Ltd.

He holds a Graduate Diploma in Applied Corporate Governance (awarded by Chartered Secretaries Australia in 2008) and has Science and Law degrees from Sydney University.

#### **Change of Management and Organisational review**

The new Board has removed Anthony Mc Clure from his position in the company and appointed Julien Moulin to act as Managing Director of the Company.

The new Board has also commissioned Mastenbroek Enterprises Pty Ltd, run by Jan Mastenbroek, the former General Manager of Gazonor to conduct a strategic review of the company and present recommendations to the Board by the 10<sup>th</sup> of November.

The Board will communicate its updated strategy at the Annual General Meeting on the 16<sup>th</sup> of November.

**Change in  
Management –  
Strategic and  
Organisational review  
underway**

## **FINANCIALS APPENDIX 5B**

At 30 September 2009, the Company had available funds of approximately €0.92 million (A\$1.53 million) and subsequent to the end of the quarter raised a further €1.45 million (A\$2.4 million).

The 1st tranche of the cash injection from Maoming Fund arrived on the 6th of October and the 2nd tranche came in on the 16th of October for a total amount of A\$2.41m.

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

## ABOUT EUROPEAN GAS LIMITED

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

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

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

For further information please contact:

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Investor Relations/Business Development Manager

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or refer to the European Gas Limited web-site: [www.europeangas.fr](http://www.europeangas.fr)

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### **Compliance Statement**

The technical information quoted in this announcement has been compiled by Mr Rod Bresnehan and geoscientists under his supervision. Mr Bresnehan is a member of the Society of Petroleum Engineers and is Chairman of the Society of Petroleum Engineering (Australia). Mr Bresnehan has consented to the inclusion in this report of the technical matters based on the information in the form and context in which it appears.

# Appendix 5B

## Mining exploration entity quarterly report

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

Name of entity

EUROPEAN GAS LIMITED

ABN

75 075 760 655

Quarter ended ("current quarter")

30 September 2009

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter 3 months €'000	Year to date 3 months €'000
1.1	Receipts from product sales and related debtors	885	885
1.2	Payments for		
	(a) exploration and evaluation	(202)	(202)
	(b) development	-	-
	(c) production	(1,305)	(1,305)
	(d) administration	(456)	(456)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1	1
1.5	Interest and other costs of finance paid	(275)	(275)
1.6	Income taxes paid	(46)	(46)
1.7	Cashcalls – exploration & evaluation	-	-
	<b>Net Operating Cash Flows</b>	<b>(1,398)</b>	<b>(1,398)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(3)	(3)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Cash assets acquired	-	-
1.12	Other	-	-
	<b>Net investing cash flows</b>	<b>(3)</b>	<b>(3)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(1,401)</b>	<b>(1,401)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(1,401)	(1,401)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Convertible notes ( refer Note 6)	-	-
1.20	Other – Heritage shareholders unclaimed cash – held in trust	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	<b>(1,401)</b>	<b>(1,401)</b>
1.21	Cash at beginning of quarter/year to date	2,320	2,320
1.22	Exchange rate adjustments to item 1.21	1	1
1.23	<b>Cash at end of quarter</b>	<b>920</b>	<b>920</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter €'000
1.24	Aggregate amount of payments to the parties included in item 1.2	94
1.25	Aggregate amount of loans to the parties included in item 1.10	-

1.26	Explanation necessary for an understanding of the transactions
	Director's remuneration

**Non-cash financing and investing activities**

2.1	Shares issued to initiate Yorkville Advisors LLC – Equity Funding Facility
2.2	

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position. <sup>(1)</sup>

		Amount available €'000	Amount used €'000
3.1	Loan facilities Yorkville Advisors LLC – Equity Funding Facility (Limit of AUD\$10m undrawn at 30 September 2009)	6,015	-
3.2	Credit standby arrangements	150	38

<sup>(1)</sup>Subsequent to the end of the quarter the Company announced it had placed 14,200,000 ordinary shares to Maoming Fund (a substantial shareholder) at a placement price of A\$0.17 each, to raise AUD\$2.414 million.

### Estimated cash outflows for next quarter

		€'000
4.1	Exploration and evaluation	350
4.2	Development	-
	<b>Total</b>	<b>350</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter €'000	Previous quarter €'000
5.1	Cash on hand and at bank	482	1,335
5.2	Deposits at call	400	1,000
5.3	Bank overdraft	38	-
5.4	Other (provide details)	-	-
	<b>Total: cash at end of quarter (item 1.22)</b> <i>(see note 6)</i>	<b>920</b>	<b>2,335</b>

### Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

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

		Total number on issue	Total Number quoted	Issue price per security (see note 3) (AU\$)	Amount paid up per security (see note 3) (AU\$)
7.1	<b>Preference *securities (description)</b>				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities</b>	199,744,359	199,744,359	-	-
7.4	Changes during quarter (a) Increases through issues Ordinary shares	588,697	588,697	-	-
7.5	<b>*Convertible debt securities</b> Tranche A Tranche B (refer to note 6)	14,500 notes 9,750 notes			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Unquoted options</b> Series B options Employee / Contractor options	<u>Number</u> 4,000,000 2,750,000 2,750,000	<u>Quoted</u> Nil Nil Nil	<u>Exercise price</u> \$1.50 \$1.50 \$2.50	<u>Expiry date</u> 28/11/2010 15/04/2010 15/04/2012
7.8	Issued during quarter	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
7.9	Exercised during quarter	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
7.10	Lapsed during quarter	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
7.11	<b>Debentures (totals only)</b>				
7.12	<b>Unsecured notes (totals only)</b>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



.....  
Company Secretary

Date 30 October 2009

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB6 Exploration for and Evaluation of Mineral Resources* and *AASB107: Cash Flow Statements* apply to this report..
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 **Convertible Notes** – The Convertible Notes have a face value of €1,500, carry a coupon rate of 5% and mature on 31 December 2010 (if not converted beforehand). Upon conversion, Tranche A and Tranche B would convert to 48,500,000 fully paid ordinary shares in the Company subject to the customary adjustments provisions.

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