

NEWS RELEASE

19 August 2009

COMMENCEMENT OF PRODUCTION TEST PROGRAM AND DRILLING ACTIVITIES, FRANCE

HIGHLIGHTS

- **Re-commencement of production test program at Lorraine.**
- **Commencement of drilling activities with priority targets at the Jura (Lons-le-Saunier) and Gazonor projects.**
- **\$10.0 million finance facility secured.**
- **Joint venture discussions continuing.**

SUMMARY

European Gas Limited (“European Gas” or “Company”) is pleased to announce the re-commencement of production test work and drilling activities at the Company’s 100% owned projects in France.

Commencing in October 2009, the immediate program allows for production testing in the multi-lateral well in Lorraine followed by drilling on targets at Jura (Lons-le-Saunier) and Gazonor. An additional well may also be drilled at Gardanne.

The planned exploration works also includes a seismic program at Lorraine to define and prioritise drilling targets in the east of the project area. 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”). Upgrading CMM gas quality is also actively under review.

In addition to the scheduled exploration, the Company is planning for expanded exploration and development programs at Gazonor, Lorraine and Jura (Lons-le-Saunier).

The principal objectives of this work will include;

- providing incremental gas deliverability and electricity generation installation at Gazonor;
- the conversion of potential and contingent coal bed methane (“CBM”) resources to reserves at Gazonor and Lorraine and planning for potential development programs;
- expansion of CBM contingent resources and initial quantification of tight gas potential principally at Gazonor; and
- resource definition at Jura (Lons-le-Saunier).

The Company intends to expand its operational capability as exploration proceeds and projects are developed during the next year.



European Gas Limited Project Areas

Lorraine (100%)

In the Folschviller 2 appraisal (or production test) well, two laterals and two sidetracks were drilled for a total of 433 metres of coal and a further 367 metres of gassy sediments. Testing of the upper lateral is partially complete and the lower lateral is temporarily shut in below a packer. The resumption of the production test program will allow for the opening of the lower lateral and the production 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. Results to date indicate that the coals are tight as anticipated. In the lower lateral a fractured zone was identified while drilling, potentially indicating a significant zone of higher permeability. This zone, together with the coals exposed in the lower lateral, will be evaluated in the well test. The results from these tests will be incorporated into the geological and structural model for Lorraine to evaluate the future application of a lateral drainage strategy for development of the Lorraine coals at Folschviller. Subject to rig availability, the program is planned for commencement in October 2009 and will run until the end of the year.

Acquisition of new seismic data on the Alsting anticline in the east part of the Lorraine permit area is planned for late 2009. Results from this seismic survey, in conjunction with the Company's recently completed reprocessed and re-interpreted seismic data in the area, will provide the basis of a stratigraphic drilling campaign on the largely unexplored Alsting structure.

Jura (Lons-le-Saunier) (100%)

The 3,795km² Jura (Lons-le-Saunier) permit contains an undeveloped coalfield and two historically produced conventional natural gas fields and several other gas shows. 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.

A new seismic acquisition program is proposed to further evaluate some of the structures with untested potential. Drilling, planned for early 2010, will focus on evaluation of the resources within known gas accumulations.

Conventional gas deposits and gas bearing formations above the coals presents both a technical challenge and opportunity. Evaluation of the conventional gas will assist in designing deeper CBM tests and, if demonstrated to be commercial, the conventional gas would have a favorable impact on the CBM project development. The overall re-evaluation of the area also enhances understanding of the structure of the coal seams and assists in further CBM target identification.

Gazonor (100%)

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. It is anticipated that drilling will commence after completion of the Jura program.

The Company is evaluating opportunities to improve CMM production at the Gazonor facilities by optimizing recovery over the 750km² 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. Examination of technologies for upgrading CMM gas quality is currently in process.

As previously announced, the Company has entered into a Heads of Agreement (“Agreement”) with Verdesis S.A., a subsidiary of EDF Energies Nouvelles S.A. for the potential development of electricity projects within the Company’s Gazonor Project.

The commercial arrangements between the Parties are planned to be detailed over the coming months.

EDF Energies Nouvelles is listed on the Euronext Paris (EEN) and is a 50% owned subsidiary of the EDF Group, a major player in the European energy industry.

Please refer to the Australian Securities Exchange announcement of 3 August 2009.

Gardanne (100%)

One site has been selected for exploration drilling at Gardanne. Planning and approval processes will shortly be commenced subject to the completion of a joint venture over the project. Drilling could take place in early 2010.

Financing

As announced on 17 August 2009, the Company has secured an A\$10,000,000 facility for working capital purposes.

In addition, the Company is in discussions with various parties with regards to potential joint ventures over one or more of the Company’s 100% owned projects.

Other financing options continue to be examined.



ABOUT EUROPEAN GAS LIMITED

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

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

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

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COMPLIANCE STATEMENT

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