

NEWS RELEASE

31 March 2011

AGREEMENT TO CONVERT UNSECURED LOAN

European Gas Limited (the Company) advised in March 2010 that it had entered into an agreement to borrow A\$2.5 million interest free from a High Net Worth Private investor (Ocean Dome Corporation, a client of a European private bank) ('Loan'). The terms of the Loan agreement provided for repayment on 31 March 2011.

In view of the Company's current negotiations with the Convertible Note holder, the lender has agreed extend the repayment date to 31 May 2011 and also to convert the Loan to equity at that or an earlier date (in full and final satisfaction of the Loan) on the following agreed terms:

- If a prospectus is lodged in connection with a capital raising (or a prospectus-exempt raising is announced) by 30 April 2011 then the Loan will convert into 5,000,000 ordinary shares at an issue price of 50 cents and 5,000,000 options to acquire ordinary shares exercisable on or before 30 April 2012 by payment of 50 cents per share; or
- If a prospectus is lodged in connection with a capital raising (or a prospectus-exempt raising is announced) after 30 April 2011 but on or before 31 May 2011 then the Loan will convert into 5,000,000 ordinary shares at an issue price of 50 cents and 6,000,000 options to acquire ordinary shares exercisable on or before 30 April 2012 by payment of 50 cents per share.
- If a capital raising is, despite reasonable efforts and having regard to market conditions, completed below AUD 0.45 per share, then for every cent per share below \$0.45 the lender will get an additional 200,000 shares and 200,000 options to acquire ordinary shares exercisable on or before 30 April 2012 by payment of 50 cents per share. It means if a capital raising is completed at (say) 40 cents per share by the 30th of April 2011 then the lender will receive a total of 6,000,000 shares and 6,000,000 options.

The Company announced on 28 March 2011 that it had obtained the approval of its shareholders in a General Meeting to proceed with the 2 transactions (Gazonor disposal and share issue) as proposed.

The Company will continue to keep the market informed of material developments as they occur and intends to seek the lifting of its current voluntary share suspension at an appropriate time.

Yours sincerely,



Mark Pitts
Company Secretary

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