ANNUAL REPORT

EUROPEAN GAS LIMITED

ABN 75 075 760 655

2011

CONTENTS

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(Non-executive Director)

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BSc LLB ACIS
(Non-executive Director)

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(Chief Executive Officer)

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(Chief Operating Officer & Chief Financial Officer)

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AUSTRALIA

It is a pleasure for me to present the 2011 Annual Report. This Report validates all the accomplishments of European Gas Limited ("European Gas" or the "Company") over the past year. The fundamentals of the Company remain unchanged, residing in a very large and highly prospective acreage position in various coal basins of France such as the Lorraine, Jura, or Gardanne regions and with the rights to acquire a major interest in an equally prospective acreage located in the Nord Pas de Calais coal basin in the Northwest region of France.

Over the past year, the Company has undergone significant changes, namely the restructuring of its balance sheet, the rationalisation of its assets, the change of its top management and the pursuit of possible diversification ventures into other unconventional hydrocarbon plays. The financial restructuring has been successfully completed, with the Company having today no debt and being fully funded for its ongoing and upcoming work programs. I am particularly pleased with the prestigious investors that are now backing our vision and the very qualified, dedicated, and enthusiastic management that leads the Company.

As a result of all these efforts, European Gas is now well positioned to enter into a significant growth phase. Our first focus remains our coal bed methane assets in France. The Folschviller-2 well in our Bleue Lorraine permit is being tested to establish gas flow rates and we are also evaluating the feasibility to re-enter this well to drill various horizontal boreholes into a thick coal seam that has not been drilled yet. These efforts should validate our concept that substantial gas flow rates can be achieved with our well design and thus lead to a commercial gas development project, significant for the scale of France. A similar approach is followed in the Nord Pas de Calais region, Northwest of France, where we have joint venture agreements with Gazonor in two exploration and one exploitation permits. Our other assets in France are being further studied so that we can refine the work program toward their exploration and appraisal.

Although the French Authorities changed one aspect of the applicable hydrocarbon legislation, leading to the prohibition of hydraulic fracturing in the exploration and exploitation of hydrocarbons, our permits and operations have not been impacted at all. Our exploration programs do not rely on the technique of hydraulic fracturing, as demonstrated by the drilling of our Folschwiller-2 well. We can also take pride to be today the only active coal bed methane exploration company in France. In light of the significant gas resources that we believe are present within our permits, European Gas could very well become a significant gas producer and fulfil a strategic role for France.

Our new ventures will also be a major component of our expected future growth. Our strategy is to grow and position European Gas from a single-country and single-geological play company to a leading multi-country and multi-geological play organisation in Europe. As such, we are currently pursuing new highly prospective opportunities in Germany, Turkey and other countries in Europe, which will diversify our current portfolio.

I am truly looking forward to be leading European Gas in this most exciting and promising growth phase which should prove to be very rewarding for our shareholders. I will keep you informed on our progress and I am counting on your support to achieve all our ambitious but realistic objectives.

Regards,

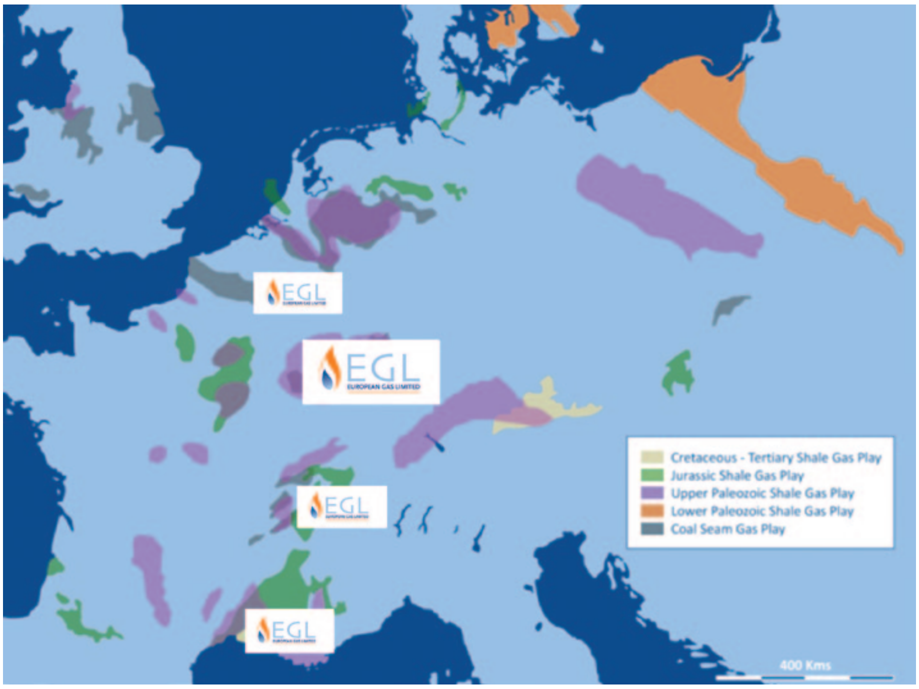
Frédéric Briens

SUMMARY

FRANCE

European Gas Limited ("European Gas" or the "Company") has a 100% interest in the following projects in France:

- Lorraine exploration and development project, North-eastern France;
- Lons-le-Saunier exploration project, Eastern France;
- Gardanne exploration project, Southern France; and



In addition, the Company has entered into three contractual agreements with Gazonor, the coal mine methane production company that changed ownership from European Gas to the Transcor Astra Group during the recent debt restructuring exercise that repositioned the Company with a clean balance sheet, with no debt and funds to resume field operations. Two of these contractual agreements are joint ventures on exploration permits, namely the Sud-Midi and Valenciennois permits. Under these joint venture agreements, the Company has the right to acquire a 70% participating interest after completing exploration expenditures of EUR 795,000 on the Valenciennois permit and EUR 2,000,000 on the Sud Midi permit respectively. The time period within which the Company must meet these expenditure requirements is approximately two years once the Company and Gazonor have agreed on the work program to be carried out.

With respect to the Poissonière and Désirée exploitation permits, the Company has the right to earn a 70% interest of the incremental production above an agreed-upon baseline, after reaching exploitation expenditures of EUR1,000,000 before May 5, 2013.

OTHER PROJECTS

The Company's three permit applications in southern Tuscany, Italy (each 100%) have not been pursued. After further review of the opportunity and its ranking against other ventures the Company is currently considering, the decision was taken not to continue the administrative process seeking the approval of these applications by the regional authorities.

In Belgium, the Benelux JV company which was an equal venture between European Gas and the Transcor Astra Group is now 100% owned by the Transcor Astra group. European Gas has the right of first refusal for any coal bed methane exploration and production project Benelux JV may pursue. At the present time, there is one such permit application under consideration, called the 'Hainaut' permit, which represents the geological continuation of the North-western French coal basin into Belgium.

The Company is also considering other new ventures into highly prospective areas outside of France, such as Germany where other coal bed methane projects are being investigated and Turkey where the Company is looking at participating in Tight Gas Sands and Tight Oil Sands exploration and production joint ventures. The Company is also investigating other prospective projects in European countries and will inform stakeholders accordingly when these projects have materialised.

OPERATIONS

Project	Name	Area (km^2)	Status	Beneficial Interest	Date of Grant or Application
FRANCE					
Gazonor, Northern France	Poissonnière	699	Production Permit	70%*	23/12/1992
	Désirée	68	Production Permit	70%*	23/12/1992
	Valenciennois	423	Exploration Permit	70%**	12/10/2009
	Sud Midi	929	Exploration Permit	100%***	24/07/2010
Lorraine, North Eastern France	Lorraine	262	Exploration Permit	100%	21/05/2010
	Lorraine Sud	528	Exploration Permit	100%	07/12/2006
	Lorraine Nord	360	Exploration Permit Application	100%	30/05/2008
Gardanne, Southern France	Gardanne	365	Exploration Permit	100%	21/05/2010
Lons-le-Saunier, Eastern France	Lons-le-Saunier	3,795	Exploration Permit	100%	28/07/2007
BELGIUM					
Wallonia	Hainaut	443	Exploration Permit Application	RFR****	17/10/2008
	TOTAL GROSS	**7872**			

*: *participating interest earned after an expenditure on the project of EUR1,000,000*
**: *participating interest earned after an expenditure on the project of EUR795,000*
***: *participating interest earned after an expenditure on the project of EUR2,000,000*
****: *RFR stands for Right of First Refusal*

LORRAINE NORTHEASTERN FRANCE (100%)

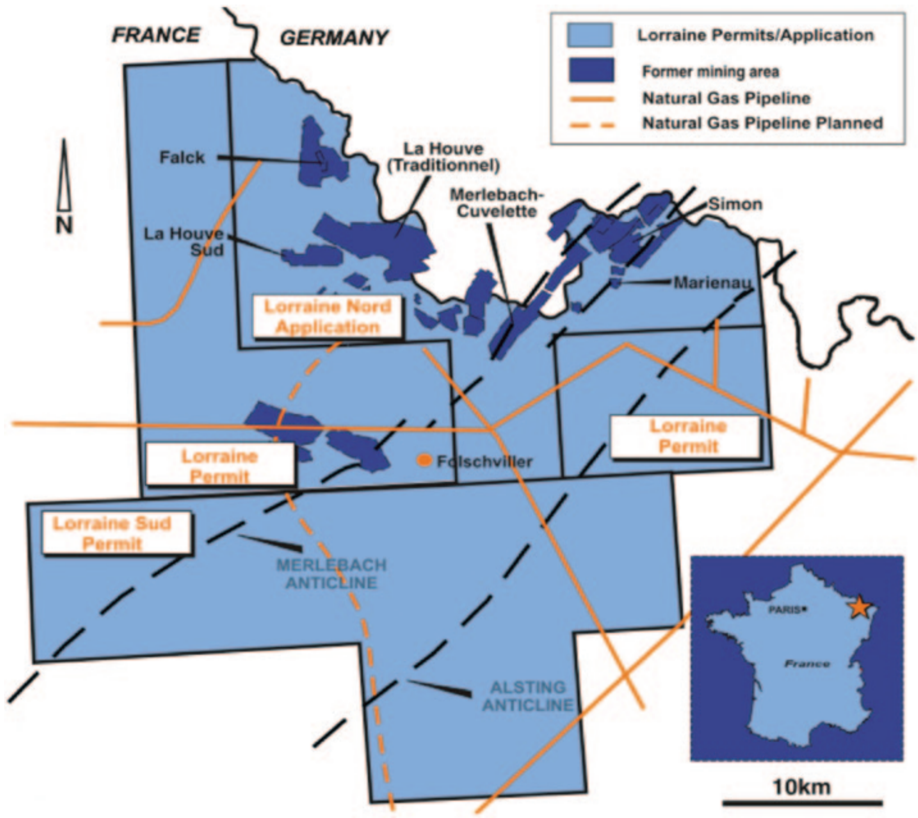


FIGURE 1: LORRAINE PROJECT

European Gas holds a 100% interest in two permits, covering 788km^2 of the Lorraine Basin. In May 2010, the Company received notification of renewal of the Bleue Lorraine exploration permit which covers an area of 262km^2 and is valid up to 30th November 2013. The Bleue Lorraine Sud permit was awarded in 2007 and is valid until 2012. In addition, the Company has submitted an application for an additional 360km^2 (refer Figure 1). The Lorraine Basin has historical coal production in excess of 850 million tonnes. The coal seams within the Basin are of Carboniferous age and are characterised as thick gassy high ranking coals. The principal targets in the Lorraine project area are CBM and Tight Gas Sands.

Historical drill hole and geological databases from many years of mining are a valuable source of detailed information on the Lorraine coals. Over 600 stratigraphic wells have been drilled in the Basin with many of the intercepts being tested for methane content. In some parts of the basin there is reasonably good existing seismic coverage.

Work on the Lorraine CBM project during 2011 focussed on detailed mapping in prospective areas using mine exploration and seismic data together with the resource estimates prepared by the Company in 2009. The Company has now embarked in the construction of a detailed and comprehensive 3-dimensional geological model using Petrel software. Exploration and evaluation work in 2011 included the continuation of testing the Folschviller 2 well which is ongoing as of October 2011. The test was initiated in the latter part of September 2011 and is expected to continue over several weeks, to complete first a dewatering phase and then sustain a gas flow test phase so that representative coal gas production characteristics can be defined.

In the Folschviller 2 well a total of 433 metres of coal and 367 metres of gassy sediments were drilled in two laterals and two sidetracks. Production testing on the upper lateral commenced in 2008, was continued in 2009-2010 and further testing on this lateral is being carried out. In December 2009 the well was reconfigured to allow testing of the lower lateral in the first half of 2010. In September of 2011, a work-over was conducted to isolate the bottom lateral, remove the electric submersible pump installed in the well, and replace it with a progressing cavity pump that provides more operational flexibility.

The current test program is designed to gather as much information as possible from the well for evaluation of reservoir characteristics. Results to date indicate that the coals exposed in the upper lateral can be de-watered to desorption pressure. An interpretation of well test data indicated that the average permeability of these coals is in the order of 1 to 2 milliDarcies, which in practical terms compares favourably to other coal bed methane projects. In the lower lateral a fractured zone was identified while drilling, potentially indicating a zone of higher permeability. This zone was tested in the first half of 2010 and the Company has concluded that the fractures encountered are in communication with the overlying aquifers system or indirectly in communication with the aquifer through the abandoned mine workings. Results from these tests have been incorporated into preliminary designs and evaluations of a lateral drainage strategy for development of the Lorraine coals.

The Folschviller-2 well offers further opportunities for drilling as a thick coal seam (approximately 10 meters thick) is available above the two coal seams currently completed with the lateral 1 and 2 branches of the well. The Company is thus considering a re-entry project where this coal seam would be accessed by several horizontal drains. Subsequently, this third lateral branch would undergo a testing phase aimed at confirming the producibility of the Lorraine coals.

The Company remains cautiously optimistic that the very thick coals, high gas contents and reservoir characteristics identified at Folschviller may be present in several blocks in the Lorraine project area and that these blocks may be amenable to a commercial development. A detailed and comprehensive technical review of the results to date and further testing are currently ongoing and a 3-dimensional geological model under construction will guide the Company in the selection of future appraisal drilling locations and conceptual field development plans.

Evaluation of the Alsting anticline structure in the East of the Lorraine permit has continued and this structure is now one component of the comprehensive geological modelling effort carried out by the Company. A seismic program has been proposed for part of the area and continues to be evaluated in terms of environmental permitting, land access, and contractors' availability and cost. In light of the recent turmoil in France regarding shale gas exploration, the Company is carefully designing its field operations and dedicating appropriate efforts to keep the local communities fully informed and supportive of its activities. The Alsting anticlinal structure was explored with the Diebling 1 well drilled by the Company in 2007. The seams observed in the Diebling well are slightly higher rank coals than those at Folschviller and gas content measurements are also higher. The Alsting anticline is a target for implementation of a multi well, multilateral development due to its higher gas content and potentially higher permeability which may be correlated with coal maturity (rank) and structural deformation.

The Lorraine Sud permit is adjacent to and south of the Lorraine permit. The area contains the southern extension of the Alsting anticline and other anticlinal axes which in places are at depths suitable for CBM development. Analysis of the structure as exhibited on the seismic data shows that there is a high probability of structurally enhanced permeability in the coals and other sediments.

GAS IN PLACE ESTIMATES

In February 2011, MHA Petroleum Consultants LLC completed its technical evaluation of the Alsting anticline, confirming the views of the Company that significant gas resources are present in this structure, which represents only a fraction of the total resources present in the Lorraine permits of the Company. The quantitative volumes for gas in place estimated by MHA are presented in the table below.

TABLE 1: Gas In Place estimates for the Alsting anticline as of February 2011

Gas in Place	BCM	BCF
LOW	11.3	400
BEST	66.6	2,350
HIGH	223.9	7,910

The volumes quoted in Table 1 clearly highlight the very high prospectivity of the Lorraine acreage.

GAZONOR, NORTHERN FRANCE (earn-in rights of 70%)

HISTORY

Gazonor holds the gas exploitation rights over the Poissonnière and Désirée production permits situated in the district of nord-pas de Calais in northern France, comprising a total area of 767km^2. In addition two permits were granted for a total surface of 1,352km^2 (Valenciennois and Sud Midi) dedicated for exploration of CMM and CBM (refer Figure 2).

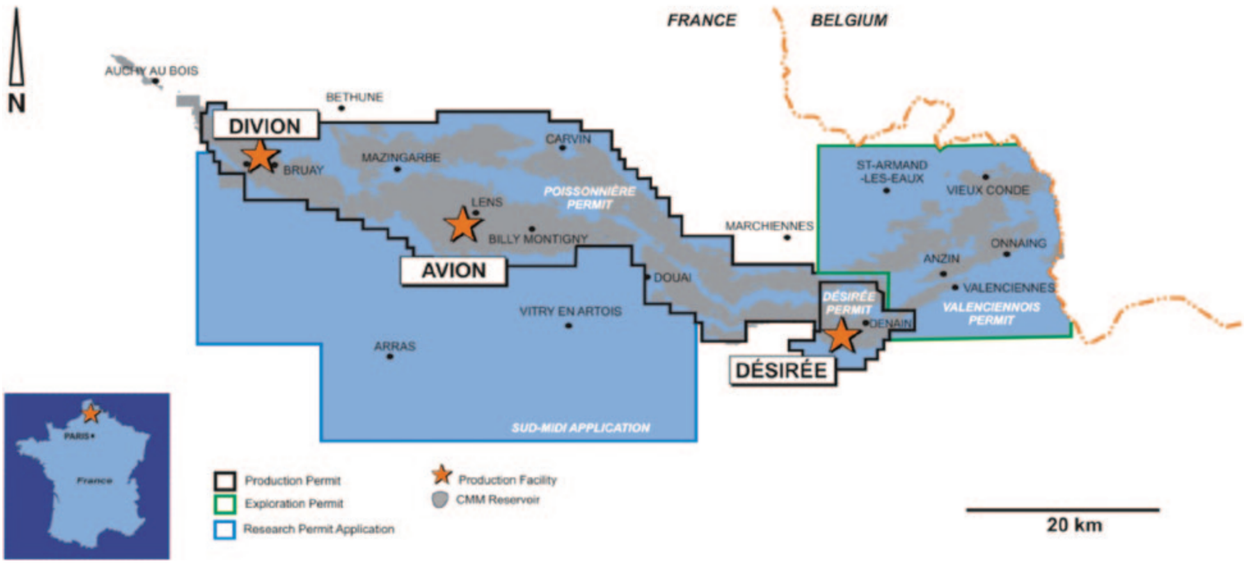


FIGURE 2: GAZONOR PROJECT

Coal was mined in these districts for several hundred years, with peak production occurring in the 1960s and the last mines closing in 1992. The extraction of CMM from the permits commenced for industrial use in 1979 from three main processing sites, Avion and Divion in the Poissonnière permit and Désirée in the Désirée permit. On 28 December 2007, European Gas acquired ownership of Gazonor S.A. During 2011, the Company successfully restructured its balance sheet and the ownership of Gazonor S.A. transferred to the Transcor Astra Group. European Gas has entered into a production sharing agreement under which the Company will earn 70% of the incremental coal mine methane production above an agreed-upon baseline after expending an amount of 1,000,000 euros pursuant to the production sharing agreement.

RESERVE ESTIMATES

In June 2007, DMT assessed the gas reserves associated with the Gazonor coal mine methane operations. Based on the joint venture agreement that the Company entered into in 2011 with the new owner of Gazonor (i.e. the Transcor Astra Group), the Company essentially retains an earn-in right for a 70% participating interest in the Gazonor exploitation permits, after expending an amount of 1,000,000 euros on these permits, which translates into a 70% share of the gross Probable (P2) and Possible (P3) reserves presented in Table 2 below.

TABLE 2: Gross gas reserves as of June 2007

Gross reserves	P2	P3
BCM	1,8	7
BCF	85	226

JURA (LONS-LE-SAUNIER), EASTERN FRANCE (100%)

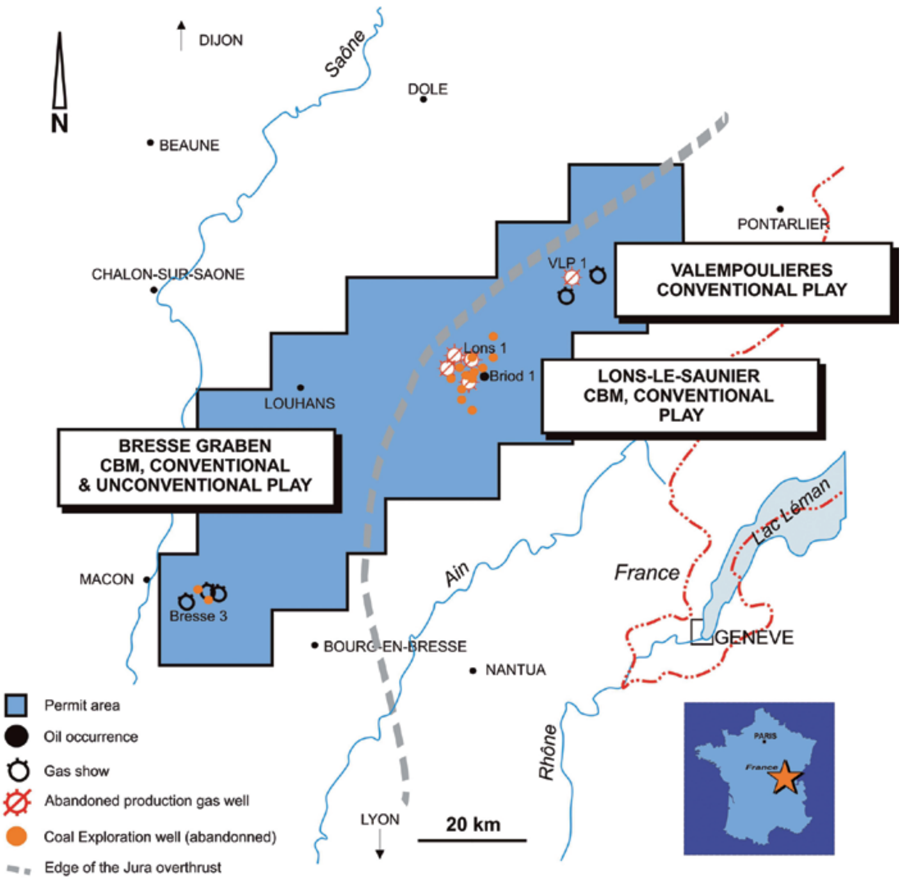


FIGURE 3: JURA (LONS-LE-SAUNIER) PROJECT

The Jura permit is approximately centred on the town of Lons-le-Saunier, situated close to the French-Swiss border. The permit area covers the central part of the northeast to southwest oriented Basin which is approximately 250km in length with the width varying between 30km and 60km (refer Figure 3).

The 3,795km^2 Jura permit contains an undeveloped coal field, two historically produced conventional natural gas fields and several other gas and oil shows. Re-evaluation of seismic and other data indicates potential for additional conventional gas accumulations as well as for gas resources within the previously exploited areas. During the period under review the potential for unconventional gas and oil resources in France has been recognised by industry and large new exploration permits have been acquired by several operators. The Company's acreage in Jura is now adjacent to an area of significant interest for unconventional gas exploration.

In the first half of 2011 a continued review of the property targeting the conventional resources potentially present in the permit took place. Once this evaluation has been completed, the Company will consider whether to embark on a similar formal exercise for the unconventional resources potentially held in the Lons-le-Saunier permit. Conventional oil and gas deposits and gas bearing formations are present above the coals in the Lons le Saunier area. Previous coal exploration by Charbonnages de France identified an in-situ tonnage of 370 million tonnes of gassy coal over a central area of 32km^2. This estimate was based on 29 wells (approximately 31,000 metres drilled) in the vicinity of the town of Lons-le-Saunier. The lateral extent of the coal measures is undefined, however at Bresse some 70km south west of Lons-le-Saunier, an oil exploration well intersected coal measures of similar age. Structural mapping, using re-processed seismic and well information, indicates that the coals may be present in areas not explored by Charbonnages de France. The maximum net coal thickness at Lons-le-Saunier is approximately 18 metres while at Bresse, a net coal thickness of 15 metres was intersected. The coals are medium to high volatile bituminous in rank.

At the present time, the Company is in discussion with the French Authorities regarding the recent difficulties in France to operate hydrocarbon exploration permits and to request an extension of the time to meet the scheduled commitments of the concession.

GARDANNE, SOUTHERN FRANCE (100%)

European Gas has a 100% interest in the Gardanne exploration permit. This permit is located in an environmentally and socially sensitive area of France and the Company is carefully assessing the best path forward to explore and appraise this property and also comply with its exploration commitments.

BELGIUM

In financial year 2008 the Company entered into an agreement with Transcor Astra Group ("Transcor"), a subsidiary of Compagnie Nationale à Portefeuille S.A. ("CNP") for the creation of a new joint venture company, European Gas Benelux S.A. ("Benelux JV").

Benelux JV was 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.

Benelux JV ownership was originally 50% European Gas and 50% Transcor, with European Gas as the operator. During the course of 2011, the participating interest of European Gas was transferred to Transcor which is now the 100% owner of Benelux JV. The Company has retained a right of first refusal for any coal bed methane exploration and production project that Benelux JV could pursue.

During the 2009 financial year, the Benelux JV applied to the Wallonia Government for a hydrocarbon permit "Hainaut" covering 443km^2. The application covers the immediate southern extension of the Wallonia Coal Basin and historical coal mining region. The Basin is also the eastern extension of the Nord-Pas de Calais Basin in France in which the Company's Gazonor project is situated.

As of today, the Company retains a right of first refusal with the application for the Hainaut exploration permit should Benelux JV secure this permit.

ITALY

After further review of the technical merits of the three permit applications and the perceived challenges to operate in the Tuscany region of Italy, and in light of the portfolio of new ventures currently managed by the Company, the decision was made to not continue the administrative process of securing the approval of the Regional Authorities for these three applications.

AUSTRALIA

The Company holds a 2% and 3% Net Well Head royalty over 28,701km^2 and 1,470km^2 respectively in the Canning Basin, Western Australia. The permits are held by Buru Energy Limited.

NEW VENTURES

Following a difficult year with a successful restructuring and fundraising resulting in a zero debt situation and equity raised to resume operations and with the addition of key management personnel and technical expertise, the Company is now well positioned to enter into a significant growth phase.

Such growth will have a major organic component, anchored in the further exploration and appraisal of the Company's coal bed methane assets in France to become a leading unconventional oil and gas exploration company in Europe. The other major growth component is to be found in the various new ventures that the Company is pursuing. These new ventures are carefully selected, to provide a diversified portfolio into countries other than France and into also new geological plays such as tight gas sands and tight oil sands. At the present time, the Company is pursuing potential joint ventures in Germany, Turkey, and other European countries.

INTRODUCTION

The directors are focused on fulfilling their responsibilities individually, and as a board, for the benefit of all the Company's stakeholders. The Board supports the "Principles of Good Corporate Governance and Best Practice Recommendations" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, the board have adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The Company's practices are broadly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the Company's practices do not strictly comply.

The following section addresses the Company's practices in complying with the principles.

Principle 1: Laying Solid Foundations for Management and Oversight

Role and Responsibilities of the Board
The Board exists to lead and oversee the management and direction of the Company.

After appropriate consultation with executive management the board:

- defines and sets its business objectives and subsequently monitors performance and achievements of those objectives;
- it oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and the review of executive management of the company;
- monitors and approves financial performance and budgets; and
- reports to shareholders.

Principle 2: Structuring the Board to Add Value

Composition of the Board
The relevant provisions in the Constitution and the Corporations Act determine the terms and conditions relating to the appointment and termination of Directors. All Directors, other than the Managing Director, are subject to re-election by rotation every three years.

The names of the directors of the Company and their qualifications are set out in the Directors Report and on the Company's web site www.europeangas.com.au.

The composition of the Board is determined so as to provide the Company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfill the business objectives of the company.

The best practice recommendations are that a majority of the directors and in particular the chairperson should be independent. Directors are expected to bring independent views and judgement to the Board's deliberations.

The composition of the Board has changed during the year under review. During the relevant period there was at no time a majority of independent directors.

One of the three Directors is considered by the Board to be independent, and as such the Company does not comply with Recommendation 2.1 of the Corporate Governance Council, which recommends that a majority of Board Members should be independent. The Board considers that both its structure and composition are appropriate given the size of the Company and that the interests of the Company and its shareholders are well met.

Independence of Chairman
The Chairman is not considered to be independent and therefore the Company has not complied with Recommendation 2.2 of the Corporate Governance Council.

Roles of Chairman and Chief Executive Officer
Subsequent to the end of the financial year the roles of Chairman and Chief Executive Officer have been seperated, and accordingly the Company complies with Recommendation 2.3 of the Corporate Governance Council.

Nomination of Other Board Members
The Board monitors its composition to determine if additional core strengths are required to be added to the Board in light of the nature of the company's businesses and its objectives.

Independent Advice
Each of the directors is entitled to seek independent advice at the Company's expense to assist them to carry out their responsibilities.

Principle 3: Promotion of Ethical and Responsible Decision-Making

Directors, officers, employees and consultants to the Company are required to observe high standards of behavior and business ethics in conducting business on behalf of the Company and they are required to maintain a reputation of integrity on the part of both the Company and themselves. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Diversity Policy
The Board has implemented a Diversity Policy in line with the ASX's Corporate Governance guidelines. The Company believes that the promotion of diversity on its Boards, in senior management and within the organisation generally is good practice.

The Diversity Policy seeks to attract and retain people by promoting an environment where employees are treated with fairness and respect and have equal access to opportunities as they arise. Diversity within the workforce includes such factors as religion, race, ethnicity, language, gender, disability and age.

Gender Diversity
The Corporate Governance recommendation 3.2 is effective from 1 July 2011 and requires the Board to set 'measureable objectives' for achieving gender diversity and to report against them on an annual basis. The Board is currently reviewing its practices and will put measures in place to assess the success of the policy during the coming financial year.

Trading in Company Securities
The Company encourages Directors and employees to adopt a long-term attitude to their investment in the Company's securities. All Directors and employees (including their immediate family or any entity for which they control investment decisions), must ensure that any trading in securities issued by the Company is undertaken within the framework set out in the Securities Trading Policy.

The Securities Trading Policy does not prevent Directors or employees (including their immediate family or any entity for which they control investment decisions) from participating in any share plan or share offers established or made by the Company. However, Directors or employees are prevented from trading in the securities once acquired if the individual is in possession of price sensitive information not generally available to all security holders.

In keeping with recent listing rule amendments, additional restrictions are placed on trading by Directors, Executives and other personnel as determined by the Chairman and Company Secretary from time to time ('Key Management Personnel').

Key management personnel must not deal in Company Securities at any time if in possession of any inside information relating to those securities.

In addition to the overriding prohibition against dealing in the Company's securities when a person is in possession of inside information, Key Management Personnel and their associated parties are at all times prohibited from dealing in the Company's securities during prescribed 'closed' periods. The Company has nominated closed periods to be during the week prior to the release of the Company's Quarterly Reports (including the Appendix 5B) unless exceptional circumstances apply.

The Securities Trading Policy also includes a clause prohibiting Directors and Executives from entering into transactions in associated products which operate to limit the economic risk of security holdings in the Company over unvested entitlements. In accordance with Listing Rules, a director must notify the ASX within 5 business days after any change in the Director's relevant interest in securities of the Company or a related body corporate of the Company.

A director must notify the Company Secretary in writing of the requisite information within 2 business days in order for the Company Secretary to make the necessary notifications to ASIC and ASX as required by the Corporations Act and the ASX Listing Rules.

Principle 4: Safeguarding Integrity in Financial Reporting

The Board does not have a separate Audit Committee with a composition as suggested by Recommendations 4.1, 4.2 and 4.3 of the Corporate Governance Council. The full Board carries out the function of an audit committee. The Board believes that the Company is not of a sufficient size to warrant a separate committee and that the full Board is able to meet objectives of the best practice recommendations and discharge its duties in this area. The relevant experience of Board members is detailed in the Directors' section of the Directors' Report.

Financial Reporting
The Board relies on senior executives to monitor the internal controls within the Company. Financial performance is monitored on a regular basis by the Chief Executive Officer who reports to the Board at the scheduled Board meetings.

Principle 5: Making Timely and Balanced Disclosure

The Board places a high priority on communication with Shareholders and is aware of the obligations it has, under the Corporations Act and ASX Listing Rules, to keep the market fully informed of information which is not generally available and which may have a material effect on the price or value of the Company's securities.

The Board requires that matters that a person could reasonably expect to have a material effect on the share price are announced to the ASX in a timely manner, where a decision is made not to notify the ASX of a particular event or development, the reasons for non-notification are determined by the board.

The Company Secretary, in consultation with the Chief Executive Officer, is the person responsible for overseeing and co-ordination disclosure of information to the ASX as well as communicating with the ASX.

Principle 6: Respecting the Rights of Shareholders

The Board's fundamental responsibility to shareholders is to work towards meeting the Company's objectives so as to add value for them.

The Board seeks to inform shareholders of all major developments affecting the Company by:

- preparing half yearly and yearly financial reports;
- preparing quarterly cash flow reports and reports as to activities;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- hosting all of the above on the company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report together with notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the Company's affairs by attending the meeting in person or by proxy. Shareholders who attend the meeting are able to pose questions on the audit process and the financial statements directly to the independent auditor who attends the meeting for that purpose.

Principle 7: Recognising and Managing Risk

The Board has identified areas of significant business risk which are monitored on an ongoing basis including:

- Tenure to the Company's' assets and operations;
- Competent project and operational management;
- Occupational health and safety
- Environmental risks
- Comprehensive insurance where possible
- Sovereign risk
- Commodity price and foreign exchange

Whilst the Board as a whole is responsible for supervising the management of risks by the Company, it has delegated the responsibility for day to day risk management to the Managing Director and other senior management. The company has adopted procedures by which it identifies and manages those risks on a case by case basis.

The Company's risk management strategy is evolving and will be an ongoing process and it is recognised that the level and extent of the strategy will develop with the growth and change in the Company's activities.

CEO / CFO Written Statement
Consistent with the requirements of the Corporations Act and best practice recommendations, the person or persons fulfilling the functions of Chief Executive Officer and Chief Financial Officer are required to make a statement to the Board that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The Board also requires that the statement include an assurance that the declaration is founded on a sound system of risk management and internal control, and that the system is working effectively.

This statement has been received by the Board.

Principle 8: Remunerate Fairly and Responsibly

There is no formal remuneration committee. A commentary on remuneration policy and practices is set out in the remuneration report contained within the Directors' Report in the Annual Report.

The executive Directors and senior executives receive salary packages which may include performance based components designed to reward and motivate. Non-executive Directors receive fees agreed on an annual basis by the Board. The maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. In determining the allocation the board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.

Table of Departures and Explanations (from the Recommendations of the ASX Corporate Governance Council)

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
1.1	There was no formalisation and disclosure of separate functions between the board and management during the reporting period.	A number of changes to Board composition occurred during the reporting period. The managing director had responsibility for day to day management of the Company. The practices followed were compatible with the Principle. Subsequent to the end of the financial year the Board have appointed a Chief Executive and a Chief Operating / Financial Officer.
2.1	A number of changes to Board composition took place during the year. However at no time were there a majority of independent directors.	Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.
2.2	The Board does not have an independent chairperson.	The Chairperson doesn't fulfill the requirements for independence, however the Board believes he meets the needs of the Company at its present stage of development.
2.4	A separate Nomination Committee has not been formed.	The Board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict.
2.5	The Company has not had a formal process for the evaluation of the performance of the Board.	The Board is continuing to review options for a formal review process to be adopted.
3.1	No formal code of conduct has been established as to practices necessary to maintain confidence in the company's integrity or as to reporting and investigating unethical practices.	A formal code of conduct is being considered for implementation during the next financial year.
4.2 and, 4.3	The Company does not have an audit committee.	The full Board acts in the capacity of an audit committee. Given the size and composition of the Board it is not possible to have an audit committee which meets the guidelines.
5.1	There is no written policy to ensure compliance with ASX Listing Rules disclosure requirements.	The Company does not consider that a written policy is required at this time. This situation will be reviewed and amended to meet the Company's increased activities and growth.

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
7.1 and 7.2	There has been no written implementation of policy on risk oversight and management or for senior management to make statements to the board concerning those matters.	Major business risks have been identified and the Board as a whole is responsible for supervising the management of those risks. The Company has adopted procedures by which it identifies and manages those risks on a case by case basis, through the Managing Director and relevant senior executives. Given the nature and size of the Company, its business interests and the active involvement of directors during the period under review, it had not been considered necessary to establish written policy in this area. However, the Company's risk management strategy is evolving and will be an ongoing process and it is recognised that the level and extent of the strategy will develop with the growth and change in the Company's activities. The Board will continue to review these matters.
8.1	No formal remuneration committee has been established.	Given the size and involvement of the board in the company's management, the formation of a separate remuneration committee is not warranted.
	Non-executive directors have to date been eligible to participate in the Company's Employee Share Option Plan (Incentive plan).	In order to preserve funds (associated with the payment of directors fees), and to attract and retain directors of sufficient caliber and standing, all directors are eligible to participate in the company's incentive plan, subject to prior shareholder approval to any grant made in accordance with the Incentive Plan.

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 2011.

1. PRINCIPAL ACTIVITIES

The principal activities of the consolidated 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

Corporate

For a large part of the year the Company focused on the resolution of a number of Corporate matters including:

- Restructuring of the Convertible Notes;
- Repayment/Conversion of an unsecured loan; and
- Recapitalising the Company.

Convertible Note Restructure

Restructure of the convertible notes issued to Transcor Astra Luxembourg S.A. (Transcor) on 28 December 2007 was finally achieved with the execution of definitive agreements on 5 May 2011. The restructure had the effect of obtaining the immediate and full discharge of the Notes. In consideration for the restructure the Company:

(i) accepted the subscription by Transcor for 22m EGL shares at AUS $ 0.50 per share. All EGL shares issued to Transcor are subject to a 6 months' restriction period;
(ii) granted to Transcor a 12 month option to subscribe for 20m EGL shares at an exercise price of AUS $ 0.50 per share;
(iii) sold 100% of issued capital of Gazonor SAS to Transcor France SAS, a wholly owned subsidiary of Transcor;
(iv) sold the Company's equity interest in European Gas Benelux (EGB) representing 50% of the shares and voting rights of EGB to Transcor;
(v) accepted from Transcor a right of first refusal over any CBM, tight or shale oil and gas projects sourced by EGB in the Benelux area;
(vi) entered into farmout and joint operating agreements with Gazonor in respect of the Sud Midi and Valenciennois exploration permits; and
(vii) entered into a production sharing agreement with Gazonor in respect of the Poissonnière and Désirée production permits.

Conversion of Unsecured Loan

Following the successful restructure of the Convertible Notes the Company approached the lender of an unsecured loan for terms to convert it to equity. The loan was due for repayment on 31 March 2011, EGL agreed terms with the lender to 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 31 May 2011 EGL announced that the Company had issued the lender 5m ordinary shares at an issue price of AUS $0.50 each together with 6m options to acquire ordinary shares. These securities were issued in full and final satisfaction of the Loan.

The options are exercisable on or before 30 April 2012 at an exercise price of AUS $ 0.50 per share.

Recapitalising the Company

On 2 June 2011 the Company announced it had completed the arrangements for a Private Placement to raise up to AUS $15 million through the issue of 33,372,752 shares at 45 cents.

Following the completion of the restructuring and successful recapitalization, the Company applied to ASX for re-quotation of its shares and resumed trading on 7 June 2011.

As at 30 June 2011 30,217,146 ordinary shares had been issued pursuant to the placement at AUS $0.45 raising an amount of AUS $13.5 million.

2. REVIEW OF OPERATIONS (CONT'D)

Hydrocarbon Projects, Europe

France

The Company has 100% interest in the following project areas in France:

- Lorraine exploration and development project, north eastern France
- Lons Le Saunier exploration project, eastern France; and
- Gardanne exploration project, southern France.

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 submitted an application for an additional 360km^2 (Lorraine Nord).

During the year the results of the independent resource study by MHA Petroleum Consultants (MHA) on the Alsting Anticline were used to identify target areas for acquisition of new seismic data which, in conjunction with the proposed exploration drilling program during the next 12 months, will permit detailed evaluation of resource blocks prior to implementation of a pilot project. MHA also evaluated well test data from Folschviller 2 which together with the Company's own analysis, indicates that the existing upper lateral in the Folschviller 2 well could be tested on a long term basis with the objective of establishing a stable gas flow. The Company has completed the design and planning for a well service operation to re-configure the well for a long term test.

Jura (Lons Le Sanier) - Central France – 100% interest in the Jura (Lons-le-Saunier) permit
The 3,795km^2 Jura (Lons-le-Saunier) permit contains an undeveloped coalfield with CBM potential, two historically produced conventional natural gas fields, several other conventional gas shows and unconventional oil and gas potential in the Bresse Graben.

The results of an independent assessment of the conventional gas and oil opportunities on the Jura permit, carried out by RISC Consultants, show that the coalbed methane potential in the Jura Permit presents a larger prospective resource which can be evaluated at lower risk than the conventional targets

Gardanne - Southern France – 100% Interest in the "Gaz de Gardenne" permit
The area is within a larger unconventional resource target area which has been the subject of significant permitting interest in the last year.

A drilling location has been selected to test the coals in an area of the basin where the effects of flooded mine workings will be minimized. Site evaluation and environmental studies for the location have been completed and a well design and application for drilling are planned for the first quarter 2012.

Farmin and Production Sharing
The Company has farm-in rights over exploration permits sold as part of the restructure of the Convertible Notes:

Nord, Pas de Calais Projects - Northern France
As part of the restructuring, the Company sold its Gazonor production unit however, it has kept the option to participate in production of new gas (Production Sharing Agreement) from within the Poissonnière and Désirée concessions by funding the first € 1m of new exploration and development expenditures. In addition the Company has secured the farm-in rights to 70% interest in the Sud Midi and Valenciennois exploration Permits in Northern France through an initial funding commitment of € 2.795m.

2. REVIEW OF OPERATIONS (CONT'D)

Hydrocarbon Projects, Europe

Belgium

Benelux Joint Venture
As part of the restructuring of the Convertible Notes the Company has sold its 50% interest in a joint venture company to Transcor. The JV company was 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.").

Italy

Southern Tuscany
Preliminary environmental impact studies have been submitted to the Regione Toscana in respect of three permit areas. As at the end of the financial year the approvals remained pending.

Hydrocarbon Projects, Australia

Canning Basin, WA Royalties from Buru Energy
The Company is currently receiving a small royalty income stream from Buru Energy in respect of the Blina Production Licences L6 and L8 located along the Northern margin of the Fitzroy Trough, part of the Fitzroy/Gregory Basin within the onshore Canning Superbasin in the Kimberley region of central northern Western Australia.

3. OPERATING RESULTS

The consolidated profit of the consolidated entity after providing for income tax amounted to €651,243 (2010: Loss €7,215,765).

4. DIVIDENDS

No dividend has been paid by the company during the financial year ended 30 June 2011, nor have the directors recommended that any dividends be paid.

5. EVENTS SUBSEQUENT TO REPORTING DATE

On 25 August 2011, the Board appointed Mr Frederic Briens to the position of Chief Executive Officer. Mr. Briens holds an M.S. and a Ph.D. in Petroleum Engineering from Texas A&M University, a Master's degree in Business Administration from Colorado State University and an Engineering degree from Ecole Centrale de Paris. Mr. Briens is a Petroleum Engineer with over twenty five years of operating and management experience in international conventional and unconventional oil and gas projects. When at Conoco, Mr. Briens was part of the technical team that evaluated the CBM potential in Western Europe including the Lorraine and Rhur basins.

Other than the above appointment there were no significant events that have occurred between the reporting date and the date of this financial report.

6. LIKELY DEVELOPMENTS

The Consolidated 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 consolidated 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 consolidated 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 22 to 26 and forms part of the Directors' Report for the financial year ended 30 June 2011.

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 AND EXECUTIVES

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

Name and qualification	Experience
Mr Julien Moulin Chairman (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 with a significant focus on China and resource companies. He previously was an investment manager at Barclays, UBS Global Asset Management and SKI Capital in London. Mr. Moulin serves on the board of several listed and unlisted companies in China and the US.
Mr Rod Bresnehan Non-executive Director (appointed 01 September 2009)	Mr Bresnehan is a Petroleum Reservoir Engineer with 35 years experience in the oil and gas industry in both upstream resources and reserves development; and in downstream commercial and marketing areas, with specific continued emphasis on new advances in the technical and commercial optimisation of coal bed methane projects. Mr Bresnehan provides critical guidance in the areas of conceptual field development plans and efficient well completion techniques for the geological conditions prevalent in the coal gas assets of the Company. Access to this expertise offers a significant competitive advantage the Company. Mr Bresnehan has held various senior management positions in major Australian hydrocarbon exploration and production companies, including Santos Limited and Oil Company of Australia Limited (Origin Energy Limited), and is a principal consultant to many coal bed methane projects and groups in Australia and internationally. Mr Bresnehan is active with the Society of Petroleum Engineers (SPE) and is a past Chairman of the Australian, NZ and PNG Council. He is Principal of Bresnehan and Associates. He is also a director of Clean Energy Australasia and Energy Resource Development; and previously a Non-Executive Director of Anzoil.
Mr (John) Sebastian Hempel BSc LLB ACIS Non-executive Director (appointed 01 September 2009)	Mr Hempel is a corporate lawyer and a chartered secretary with over 20 years corporate advisory experience with ASX listed companies and in the resources sector. He has previously held positions at Minter Ellison, Macquarie Bank Limited and the Australian Securities Exchange. Mr Hempel also holds directorships with Prosperity Resources Ltd, Conchita Nominees Pty Ltd and The Armidale School
Mr Peter Cockcroft Managing Director (resigned 06 April 2011)	Peter is a Life Member of the Society of Petroleum Engineers (SPE), was a distinguished Lecturer for SPE on Risk, a Life Fellow of the Royal Geographical Society, a Life member of the South East Asian Petroleum Exploration Society (SEAPEX), a Certified Petroleum Geologist of the American Association of Petroleum Geologists, a Fellow of the Association for Risk Management, as well as authoring more than forty technical and commercial papers. He is a Graduate of the Australian Institute of Company Directors and a member of the Institute of Directors. He was recently a member of the AIPN LNG GSA drafting committee.

10. DIRECTORS AND EXECUTIVES (CONT'D)

The following persons held executive positions during or since the end of the financial year:

Name and qualification	Experience
Mr. Frédéric Briens Chief Executive Officer (appointed 25 Aug 2011)	Mr. Briens is a Petroleum Engineer with over twenty five years of operating and management. Mr. Briens previously held the positions of Chief Strategy Officer and Chief Operating Officer of BPZ Resources (NYSE: BPZ), a company that became public in 2004 and was trading in the New York Stock Exchange by 2009. Mr. Briens personally directed on the ground all operations from 2005 to 2009, drilling in particular two successful exploration wells and bringing two fields into production in a matter of months. From 2002 through 2004, Mr. Briens served as Geosciences and Business Development Manager for Perenco Venezuela S.A. From 1999 to 2002, Mr. Briens was the Chief Reservoir Engineer for Lundin Petroleum in Switzerland.
Mr. Johannes Niemetz Chief Operating Officer & Chief Financial Officer (appointed 15 July 2011)	Mr. Niemetz formerly worked at General Electric within its Infrastructure Unit on, inter alia, the integration of Gas Engine manufacturer Jenbacher, and subsequently within GE Oil and Gas, assessing global M&A opportunities and working on financial planning and analysis. Since 2006, Mr. Niemetz worked as a Principal at Strata Partners, an independent European investment banking firm in London where he acted on numerous public and private cross-border M&A deals as well as placements in the technology and energy sectors.
Mr. Mark Pitts FCA Company Secretary	Mr Pitts is a 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	
	A	B
Julien Moulin	23	23
Peter Cockcroft [1]	17	17
Rod Bresnehan	23	23
Sebastian Hempel	23	23

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.
(1) Resigned prior to the reporting date of 30 June 2011.

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 Securities 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
Julien Moulin	-	-
Peter Cockcroft	-	14,500,000
Rod Bresnehan	-	-
Sebastian Hempel	-	-

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
Consultant Options	15 April 2008	2,000,000	$2.50	15 April 2012
Director Options	31 Dec 2010	1,500,000	$0.35	31 Dec 2011
	31 Dec 2010	3,000,000	$0.50	31 Dec 2012
	31 Dec 2010	10,000,000	$0.70	31 Dec 2012
Issued in settlement of debts	3 May 2011	6,000,000	$0.50	30 April 2012
	6 May 2011	20,000,000	$0.50	5 May 2012
Total		**42,500,000**		

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

No 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.

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.

16. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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.

17. NON-AUDIT SERVICES

During the year Deloitte Touche Tohmatsu the Company's auditors, did not perform any services in addition to their statutory duties.

18. ROUNDING OFF

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

The lead auditor's independence declaration is set out on page 27 and forms part of the directors' report for the year ended 30 June 2011.

Signed in accordance with a resolution of the Board of Directors

Sebastian Hempel – Director
Dated at Perth, Western Australia this 30th day of September 2011

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 General Meeting in March 2011 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	2011	2010	2009	2008	2007
Net profit (loss) €'000	652	(7,216)	(5,545)	(3,757)	(1,172)
Earnings/(loss) per share (€ cents per share)	0.27	(3.44)	(2.78)	(1.89)	(0.66)
Dividends paid (€ cents per share)	Nil	Nil	Nil	Nil	Nil
Change in share price – increase/(decrease) (AU$ cents per share)	22.0	6.0	(55.5)	(30.0)	61.0
Return of capital	Nil	Nil	Nil	Nil	Nil
Market capitalisation (undiluted) at 30 June €'000	83,697	29,862	16,035	84,377	123,805

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 July 2011 the Company entered into an agreement with Mr Johannes Niemetz to join the Company as Chief Operating Officer (COO).

The agreement between Johannes Niemetz and European Gas has the following key terms:

- remuneration comprises an annual base salary of US$100,000 per annum;
- annual base salary is inclusive of statutory superannuation (in accordance with UK Law);
- normal statutory employee entitlements will accrue; and
- the engagement may be terminated on three (3) months notice by either the Company or Mr Niemetz, for other than termination due to misconduct.

In August 2011 the Company entered into an agreement with Mr Frederic Briens to join the Company as Chief Executive Officer (CEO).

The agreement between Frederic Briens and European Gas has the following key terms:

- remuneration comprises an annual base salary of €200,000 per annum;
- annual base salary is inclusive of statutory superannuation (in accordance with Australian Law);
- normal statutory employee entitlements will accrue; and
- the engagement may be terminated on three (3) months notice by either the Company or Mr Briens, for other than termination due to misconduct.

In March 2011 the Company entered into a service agreement with Endeavour Corporate Pty Ltd, a company in which the Company Secretary, Mr. Mark Pitts has an interest. 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

Julien Moulin	Chairman
Rod Bresnehan	Non-executive Director
Sebastian Hempel	Non-executive Director
Peter Cockcroft	Managing Director (resigned 6 April 2011)

Company Executives (as defined by section 300A (1b) (a))

Frederic Briens	Chief Executive Officer (appointed 25 August 2011)
Johannes Niemetz	Chief Operating Officer (appointed 15 July 2011)
Mark Pitts	Company Secretary

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 2011.

		Short term benefits							
	Year	Salary & fees €	Other (**) €	Non-monetary Benefits €	Post employment €	Termination Benefits €	Total €	Proportion of remuneration performance related %	Value of Options as a proportion of remuneration %
Directors									
Julien Moulin (appointed 01/09/09)	**2011**	**51,361**	**299,880**	**-**	**-**		**351,241**	**-**	**-**
	2010	33,335	-	-	-	-	33,335	-	-
Rodney Bresnehan (appointed 01/09/09)	**2011**	**44,211**	**80,278**	**-**	**11,203**	**-**	**135,692**	**-**	**-**
	2010	34,045	-	-	-	-	34,045	-	-
Sebastian Hempel (appointed 01/09/09)	**2011**	**44,211**	**80,278**	**-**	**11,203**	**-**	**135,692**	**-**	**-**
	2010	33,728	-	-	-	-	33,728	-	-
Gauthier De Potter (resigned 09/02/10)	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	23,712	-	-	-	-	23,712	-	-
Peter Cockcroft (appointed 07/07/10 resigned 06/04/11)	**2011**	**140,194**	**-**	**1,539,494**	**-**	**-**	**1,679,688**	**-**	**91%**
	2010	-	-	-	-	-	-	-	-
Anthony J McClure (appointment terminated 25/09/09)	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	34,260	-	100,890	-	250,613	385,763	-	-
Alan J Flavelle (resigned 01/09/09)	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	18,507	-	-	-	42,432	60,939	-	-
Terence V Willsteed (resigned 01/09/09)	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	6,858	-	-	-	-	6,858	-	-
Total, all directors	**2011**	**279,977**	**460,436**	**1,539,494**	**22,406**	**-**	**2,302,313**	**-**	**-**
	2010	184,445	-	100,890	-	293,045	578,380		
Executives									
Johannes Niemetz(*)	**2011**	**16,093**	**-**	**-**	**-**	**-**	**16,093**	**-**	**-**
	2010	-	-	-	-	-	-	-	-
Mark Pitts	**2011**	**70,520**	**-**	**-**	**-**	**-**	**70,520**	**-**	**-**
	2010	41,618	-	-	-	-	41,618	-	-
Total, all executives	**2011**	**86,613**	**-**	**-**	**-**	**-**	**86,613**	**-**	**-**
	2010	41,618	-	-	-	-	41,618	-	-

(*) Mr Niemetz worked as a consultant during the year.

(**) Represents amounts paid as additional remuneration on a one-off basis to Directors pursuant to the Company's constitution and in respect of extra or special services (including being a committee member) performed by each of them over a period of some 18 months. The amounts paid as additional remuneration are considered to be reasonable given the circumstances of the Company and the circumstances of each Director (including the responsibilities involved) over the financial year and the prior financial year.

Equity Instruments

Analysis of movements in shareholdings

Directors	Balance as at 01 July 2010	Acquired during the year	Disposed during the year	Balance as at 30 June 2011
Julien Moulin	-	-	-	-
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Peter Cockcroft	-	-	-	-
Company Executives				
Frederic Briens	-	-	-	-
Johannes Niemetz	-	-	-	-
Mark Pitts	-	-	-	-
	-	**-**	**-**	**-**

Analysis of movements in options

Directors	Balance as at 01 July 2010	Granted during the year	Exercised / lapsed during the year	At termination date	Balance as at 30 June 2011
Julien Moulin	-	-	-	-	-
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Peter Cockcroft	-	14,500,000	-	14,500,000	-
Company Executives					
Frederic Briens	-	-	-	-	-
Johannes Niemetz	-	-	-	-	-
Mark Pitts	-	-	-	-	-
	-	14,500,000	-	14,500,000	-

THIS IS THE END OF THE REMUNERATION REPORT

Deloitte Touche Tohmatsu
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The Board of Directors
European Gas Limited
Suite 8, 7 The Esplanade
Mt Pleasant, WA 6153

30 September 2011

Dear Board Members

European Gas Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of European Gas Limited.

As lead audit partner for the audit of the financial statements of European Gas Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit ; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Entity 2011 €'000	Consolidated Entity 2010 €'000
Continuing operations			
Finance income		45	5
Royalty income		17	23
Total income		**62**	**28**
Professional and consultancy fees		(2,608)	(763)
Depreciation and amortisation charges		(46)	(65)
Financial expenses	2	(2,916)	(2,934)
Share based payment expenses	15	(1,539)	-
Write off of exploration costs		-	(420)
Administrative and other expenses		(1,758)	(2,590)
Loss before tax from continuing operations		**(8,805)**	**(6,744)**
Income tax benefit / (expense)	5	-	(31)
Loss after tax from continuing operations		**(8,805)**	**(6,775)**
Discontinued operations			
Net profit / (loss) from discontinued operations, net of tax	6	9,457	(441)
Net profit / (loss) for the year		**652**	**(7,216)**
Other comprehensive income			
Fair value gain on available for sale financial asset		8	27
Total other comprehensive income		**8**	**27**
Total comprehensive profit/(loss) for the year		**660**	**(7,189)**
		cents	**cents**
Basic earnings / (loss) per share	24		
- From continuing operations		(3.68)	(3.23)
- From total operations		0.27	(3.44)
Diluted earnings / (loss) per share	24		
- From continuing operations		(3.68)	(3.23)
- From total operations		0.27	(3.44)

The accompanying notes form part of these financial statements

	Note	Consolidated Entity 2011 €'000	Consolidated Entity 2010 €'000
Current Assets			
Cash and cash equivalents	18(a)	9,993	1,549
Trade and other receivables	3	57	1,233
Prepayments		16	68
Inventories		-	257
Total Current Assets		**10,066**	**3,107**
Non-Current Assets			
Available for sale financial assets	4	60	138
Intangible assets	7	-	24,078
Property, plant and equipment	8	1,078	3,409
Exploration & evaluation expenditure	9	26,776	26,838
Total Non-Current Assets		**27,914**	**54,463**
Total Assets		**37,980**	**57,570**
Current Liabilities			
Trade and other payables	11	1,801	1,845
Current tax liability		-	431
Interest bearing liabilities	12	-	39,193
Total Current Liabilities		**1,801**	**41,469**
Non- Current Liabilities			
Provisions	13	-	3,559
Total Non- Current Liabilities		**-**	**3,559**
Total Liabilities		**1,801**	**45,028**
Net Assets		**36,179**	**12,542**
Equity			
Contributed equity	14	53,077	32,719
Reserves	16	3,279	652
Accumulated losses		(20,177)	(20,829)
Total Equity		**36,179**	**12,542**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Entity	
		2011	2010
		€'000	€'000
Cash Flows From Operating Activities			
Receipts from customers		4,712	5,281
Payments to suppliers and employees		(5,028)	(7,317)
Interest paid		(484)	(791)
Interest received		45	5
Income taxes paid		(567)	(214)
Net cash used in operating activities	18	**(1,322)**	**(3,036)**
Cash Flows From Investing Activities			
Purchase of plant & equipment		-	(80)
Expenditure on exploration		-	(798)
Proceeds from sale of equity investments		99	21
Cash outflow on disposal of Gazonor SA and EGB	6	(1,299)	-
Net Cash Used in Investing Activities		**(1,200)**	**(857)**
Cash flows from financing activities			
Proceeds from issue of shares		12,005	1,437
Cost of share issue		(906)	-
Proceeds from borrowings		-	1,731
Net Cash Provided By Financing Activities		**11,099**	**3,168**
Net decrease in cash held		8,577	(725)
Effect of translation of foreign currency		(133)	(46)
Cash at 1 July 2010		1,549	2,320
Cash at 30 June 2011	18	**9,993**	**1,549**

The accompanying notes form part of these financial statements.

	Issued capital €'000	Share based payment reserve €'000	Foreign currency translation reserve €'000	Available for sale investment reserve €'000	Accumulated losses €'000	Total €'000
At 1 July 2009	31,283	1,693	(36)	-	(15,046)	17,894
Loss for the year	-	-	-	-	(7,216)	(7,216)
Other comprehensive income for the year	-	-	-	27	-	27
Total comprehensive income for the year	-	-	-	27	(7,216)	(7,189)
Recognition of share based payments	-	401	-	-	-	401
Transfer *	-	(1,433)	-	-	1,433	-
Issued shares	1,646	-	-	-	-	1,646
Transaction costs of share issue	(210)	-	-	-	-	(210)
Total transaction with equity holders	1,436	(1,032)	-	-	1,433	1,837
At 30 June 2010	32,719	661	(36)	27	(20,829)	12,542
At 1 July 2010	32,719	661	(36)	27	(20,829)	12,542
Profit for the year	**-**	**-**	**-**	**-**	**652**	**652**
Other comprehensive income for the year	**-**	**-**	**-**	**8**	**-**	**8**
Total comprehensive income for the year	**-**	**-**	**-**	**8**	**652**	**660**
Recognition of share based payments	**-**	**1,540**	**-**	**-**	**-**	**1,540**
Transfer *	**401**	**(401)**	**-**	**-**	**-**	**-**
Issue of shares in settlement of debts	**8,859**	**1,480**	**-**	**-**	**-**	**10,339**
Issued shares for cash consideration	**12,004**	**-**	**-**	**-**	**-**	**12,004**
Transaction costs of share issue	**(906)**	**-**	**-**	**-**	**-**	**(906)**
Total transaction with equity holders	**20,358**	**2,619**	**-**	**-**	**-**	**22,977**
At 30 June 2011	**53,077**	**3,280**	**(36)**	**35**	**(20,177)**	**36,179**

* Balance in option valuation reserve has been transferred to retained earnings (on expiry or cancellation) and issued capital (on exercise) to the extent of those options which have been exercised / lapsed / cancelled by the reporting date.

The accompanying notes form part of this financial report.

1. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

A REPORTING ENTITY

European Gas Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Suite 8, 7 The Esplanade, Mt Pleasant Western Australia 6153, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group") and the Group's 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 30 September 2011.

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 consolidated entity with effect from 1st January 2008, as the Group is predominantly exposed to European economic environment.

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand euro's, or in certain cases, the nearest euro.

Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate business segment. The results of discontinued operations are presented separately on the face of the statement of comprehensive income. The comparative for the prior period has been restated to conform to the current period's presentation.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction and available for immediate sales in its present condition and its sale must be highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell at each reporting date until disposal. A gain or loss not previously recognised by the date of the sale is recognised at derecognition.

Non-current assets are not depreciated or amortised from the date of such classification.

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 26 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated 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 Consolidated entity during the year, their operating results have been included/ excluded from the date control was obtained or until the date control ceased.

(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 profit or loss 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 other comprehensive income until the disposal of the net investment, at which time they are recognised in the profit or loss.

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

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

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

Buildings – over 20 years
Plant and equipment – 5 to 8 years

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(iv) Property, plant and equipment (cont'd)

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 life 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 and evaluation 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.

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.

(vi) Borrowing costs

Borrowing costs are recognised as an expense when incurred except for borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(vii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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.

(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.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(ix) Investments

All investments are initially recognised fair value including acquisition charges associated with the investment except for investments classified at fair value through profit or loss.

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 in other comprehensive income 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 other comprehensive income is included in the profit or loss.

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.

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.

Cost is measured with reference to the direct costs incurred by the group in bringing the inventory to their current location and condition.

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.

(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 Statement of Cashflows, 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 fair value, 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 profit or loss when the liabilities are derecognised and as well as through the amortisation process.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 profit or loss 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').

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.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

(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 profit or loss 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 recognised in profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which it is recognised in other comprehensive income or 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 of 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.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)
(xix) Income tax (Cont'd)

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:

- 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 Statement of cash flows 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

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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).

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.

Share based payments
The values of amounts recognised in respect of share based payments have 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.

Deferred tax asset
An estimate of the probability of Group's ability to recoup deferred tax asset from future taxable profits are made as at each reporting date. Deferred tax asset (in excess of deferred tax liability) on tax losses and temporary deductible differences are recognised to the extent that sufficient future taxable profits are probable in the same tax jurisdiction in which those tax losses and deductible temporary differences arise.

(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 Statement of Financial Position.

(xxiv) Segment Reporting

Change in accounting policy
As of 1 July 2010, the consolidated entity determines and presents operating segments based on the information provided to the Board of Directors who are collectively considered to be the consolidated entity's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment reporting is presented as follows.

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment assets include production assets, exploration asset and other assets, such as cash, receivables and inventory, which are directly attributable to the segment.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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.

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the group for the year ended 30 June 2011.

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS

New or revised requirement	Effective for annual reporting periods beginning on or after	More information	Impact on Group
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project Amends a number of pronouncements as a result of the IASB's 2008-2010 cycle of annual improvements.	Beginning 1 January 2011	This will be adopted for the year ending 30 June 2012.	Management does not anticipate any impact on adoption.
AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]. AASB 9 simplifies the classifications of financial assets into two categories: • Those carried at amortised cost; and • Those carried at fair value. Simplifies requirements related to embedded derivatives that exist in financial assets that are carried at amortised cost, such that there is no longer a requirement to account for the embedded derivative separately. Removes the tainting rules associated with held-to-maturity assets. Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value.	Beginning 1 January 2013.	This will be adopted for the year ending 30 June 2014.	Management does not anticipate any impact on adoption.
AASB 10 *Consolidated Financial Statements* Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in AASB 127 *Consolidated and Separate Financial Statements* and INT-112 *Consolidation - Special Purpose Entities*. The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under AASB 10, control is based on whether an investor has: • Power over the investee • Exposure, or rights, to variable returns from its involvement with the investee, and • The ability to use its power over the investee to affect the amount of the returns.	Beginning 1 January 2013	This will be adopted for the year ending 30 June 2014.	Management does not anticipate any impact on adoption.

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS (Cont'd)

New or revised requirement	Effective for annual reporting periods beginning on or after	More information	Impact on Group
AASB 11 *Joint Arrangements* Replaces AASB 131 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures: • A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly) • A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with AASB 128 *Investments in Associates and Joint Ventures* (2011). Unlike AASB 131, the use of 'proportionate consolidation' to account for joint ventures is not permitted	Beginning 1 January 2013	This will be adopted for the year ending 30 June 2014.	Management does not anticipate any impact on adoption.
AASB 12 *Disclosure of Interests in Other Entities* Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. In high-level terms, the required disclosures are grouped into the following broad categories: • **Significant judgements and assumptions** - such as how control, joint control, significant influence has been determined • **Interests in subsidiaries** - including details of the structure of the group, risks associated with structured entities, changes in control, and so on • **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information) • **Interests in unconsolidated structured entities** - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. AASB 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.	Beginning 1 January 2013	This will be adopted for the year ending 30 June 2014.	Management does not anticipate any impact on adoption.

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS (Cont'd)

New or revised requirement	Effective for annual reporting periods beginning on or after	More information	Impact on Group
AASB 13 *Fair Value Measurement* and related AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* Replaces the guidance on fair value measurement in existing AASB accounting literature with a single standard. The AASB defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value. AASB 13 applies when another AASB requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs: • Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date • Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly • Level 3 - unobservable inputs for the asset or liability. Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.	Beginning 1 January 2013	This will be adopted for the year ending 30 June 2014.	Management does not anticipate any impact on adoption.
AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]. AASB 2009-12 makes amendments to a number of Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.	Beginning 1 January 2011	This will be adopted for the year ending 30 June 2012.	Management does not anticipate any impact on adoption.
Revised AASB 124: Related Party Disclosures (December 2009): Related Party Disclosures (December 2009). Simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition of a related party.	Beginning 1 January 2011	This will be adopted for the year ending 30 June 2012.	Management does not anticipate any impact on adoption.
AASB 2010-5 'Amendments to Australian Accounting Standards'	Beginning 1 January 2011	This will be adopted for the year ending 30 June 2012.	Management does not anticipate any impact on adoption.
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	Beginning 1 July 2011	This will be adopted for the year ending 30 June 2012.	Management does not anticipate any impact on adoption.

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS (Cont'd)

New or revised requirement	Effective for annual reporting periods beginning on or after	More information	Impact on Group
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	Beginning 1 January 2012	This will be adopted for the year ending 30 June 2013.	Management does not anticipate any impact on adoption.

2. FINANCE EXPENSES

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Finance Expense		
- Interest paid	380	1,095
- Finance costs arising from amortisation process	2,536	1,839
	2,916	**2,934**

3. TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Current		
- Trade receivables	-	621
- Other receivables(1)	57	612
Total Current Receivables	**57**	**1,233**
Aged trade receivable analysis		
1-30 days	-	551
31 -60 days	-	-
61-90 days	-	-
>90 days	-	70
	-	**621**

(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.

4. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Investment in listed shares at fair value	60	138
	60	**138**

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

5. INCOME TAX EXPENSE

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Major components of income tax expense for the years ended 30 June 2011 and 2010 are:		
Income statement		
Current income		
Current income tax charge	-	-
Deferred income tax		
Adjustment to current tax for prior period	-	462
Relating to origination and reversal of temporary differences	-	-
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	-	-
Income tax expense reported in income statement	**-**	**462**

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense.

	2011	2010
Accounting profit (loss) before tax from continuing operations	(8,805)	(6,744)
Profit / (loss) before tax from discontinued operations	9,592	(9)
Accounting profit (loss) before income tax	**787**	**(6,753)**
At the statutory income tax rate of 30% (2010: 30%)	236	(2,026)
Tax loss not brought to account as a deferred tax asset	1,109	280
Non-deductible expenses	(1,172)	1,794
Adjustments in respect of previous current income tax	-	447
Temporary differences not recognised	(38)	(32)
Income tax expense	**135**	**463**
Income tax expense reported in the statement of comprehensive income	-	31
Income tax attributable to discontinued operation	135	432
	135	**463**

5. INCOME TAX EXPENSE (CONT'D)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items	Consolidated Entity	
	2011	**2010**
	€'000	**€'000**
Provision for Impairment	-	154
Other assets	88	-
Employee benefits	5	-
Capital raising costs	314	152
Un-realised foreign exchange losses (gains)	-	14
Tax Losses	1,401	983
	1,808	**1,303**

The tax losses do not expire under current 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 Group can utilise the benefits.

6. DISCONTINUED OPERATIONS

The Group entered into a restructuring agreement with Transcor Astra Luxembourg SA on 4 February 2011 to sell its interest in Gazonor SA (a 100% subsidiary of European Gas Limited) and issue additional equity instruments in settlement of the convertible notes at 31 March 2011.

On the 6 May 2011 European Gas Limited (EGL) announced that, further to the Restructuring Framework Agreement announced on 7 February 2011, it has completed the full restructuring (retirement) of the Notes issued to Transcor Astra Luxembourg S.A. (Transcor) on 28 December 2007, through a set of transactions and agreements entered into on 5 May 2011, with the effect of obtaining the immediate and full discharge (retirement) of the Notes.

The restructuring of the Notes has been implemented through the combination of the following:

i. subscription by Transcor for 22,000,000 EGL shares at AUD 0.50 per share. All EGL shares issued to Transcor will be subject to a 6 months restriction period;
ii. granting to Transcor of a 12 month option to subscribe for 20,000,000 EGL shares at an exercise price of AUD 0.50 per share;
iii. sale of 100% of the Gazonor shares to Transcor France SAS, a wholly owned subsidiary of Transcor;
iv. sale of the Company's equity interest in European Gas Benelux (EGB) representing 50% of the shares and voting rights of EGB to Transcor ;
v. granting by Transcor to EGL of a right of first refusal over any CBM, tight or shale oil and gas projects sourced by EGB in the Benelux area;
vi. entering into farmout and joint operating agreements with Gazonor in respect of the Sud Midi and Valenciennois exploration permits; and
vii. entering into a production sharing agreement with Gazonor in respect of the Poissonniere and Desiree production permits.

Shareholder approval of the Note restructuring and Gazonor disposal was obtained on 28 March 2011.

The segment was not a discontinued operation or classified as held for sale as at 30 June 2010 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

6. DISCONTINUED OPERATIONS (CONT'D)

Results of discontinued operation:

	Consolidated Entity	
	2011	**2010**
	€'000	**€'000**
Sales	4,661	5,351
Cost of sales	(2,696)	(4,178)
Write back of provision	144	2,977
Other income	58	57
Depreciation & amortisation	(313)	(2,821)
Administration and other expenses	(1,516)	(1,395)
Profit / (loss) of Gazonor before tax	**338**	**(9)**
Income tax expense	(135)	(432)
Profit / (loss) of Gazonor after tax	**203**	**(441)**
Gain on sale of Gazonor SA	9,254	-
Profit / (loss) from discontinued operations	**9,457**	**(441)**

Cash flows from (used in) discontinued operation:

	30 Jun 2011	**30 Jun 2010**
	€'000	**€'000**
Net cash used in operating activities	586	343
Net cash from investing activities	12	(1,426)
Net cash from financing activities	-	-
Net cash flows for the year	**598**	**(1,083)**

Consideration received for the disposal of Gazanor:

Extinguishment of convertible notes issued on 28/12/2007	39,608
Issue of 22,000,000 shares in European Gas Limited at AU$0.45 each	(7,174)
Issue of 20,000,000 unlisted options in European Gas Limited at AU$0.45 each (note 15)	(1,147)
Extinguishment of European Gas SAS loan with Gazanor:	3,890
Sale of 50% in European Gas Benelux	(150)
Total Gazanor SAS disposal consideration	**35,027**
less:	
Carrying amount of Gazonor net assets sold	**(1,762)**
Goodwill in Gazanor	**(24,011)**
Carrying amount of Gazonor SA on the date of sale	**(25,773)**
Gain on sale of Gazonor SA	**9,254**
Cash and cash equivalents disposed of	1,299
Net cash outflow	**1,299**

7. INTANGIBLE ASSETS

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Goodwill	-	24,011
Software	-	3
Other	-	64
	-	**24,078**

Movement in intangible assets	**Goodwill[(1)]**	**Software**	**Other**	**Total**
	€,000	**€,000**	**€,000**	**€,000**
Balance at 01 July 2010	**24,011**	**3**	**64**	**24,078**
Acquired during the year	-	-	-	-
Disposed during the year	(24,011)	(1)	(55)	(24,067)
Amortisation during the year	-	(2)	(9)	(11)
Balance at 30 June 2011	**-**	**-**	**-**	**-**
Balance at 01 July 2009	24,011	11	-	24,022
Acquired during the year	-	-	64	64
Amortisation during the year	-	(8)	-	(8)
Balance at 30 June 2010	24,011	3	64	24,078

[(1)] For details of the disposal of Gazanor SAS refer to Note 6 – Discontinued Operations.

8. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Land & Buildings		
- At cost	-	705
- Accumulated depreciation	-	(238)
Total land and buildings	**-**	**467**
Plant and equipment		
- At cost	1,201	5,634
- Accumulated depreciation	(123)	(2,692)
Total plant and equipment	1,078	2,942
Total property, plant and equipment	**1,078**	**3,409**

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
	€,000	€,000	€,000
Consolidated entity			
- Balance at 01 July 2010	467	2,942	3,409
- Additions	-	-	-
- Depreciation	(55)	(293)	(348)
- Disposals	(412)	(1,571)	(1,983)
Carrying amount at the end of the year	**-**	**1,078**	**1,078**

	Land and Buildings	Plant and Equipment	Total
	€,000	€,000	€,000
Consolidated entity			
- Balance at 01 July 2009	533	2,723	3,256
- Additions	-	524	524
- Depreciation	(66)	(305)	(371)
- Disposals	-	-	-
Carrying amount at the end of the year	467	2,942	3,409

9. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
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	26,838	26,999
Expenditure incurred	-	259
Disposed during the year	(62)	-
Write offs	-	(420)
Balance at the end of the year	26,776	26,838

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

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
0 - 1 years	114	116
1 - 5 years	364	444
≥5 years	82	164
	560	**725**

These commitments relate to the contracted licence renewal amount. 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. TRADE AND OTHER PAYABLES

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Trade payables and accruals	1,740	1,784
Payable to shareholders of Heritage Petroleum [(1)]	61	61
	1,801	**1,845**

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

Trade and other payable are generally have a credit term of 30 to 90 days.

12. INTEREST BEARING LIABILITIES

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Current		
- Short term loan less transaction costs	-	1,431
- Debt component convertible note at amortised cost	-	37,763
	-	39,193
Non-Current		
- Debt component convertible note at amortised cost	-	-
	-	**-**

Short term loans:

On 29 March 2010, the group entered into a loan agreement with a Panama based company to borrow up to €1.69 million to fund the working capital requirements of the group.

The key terms of the loan were:
- The borrowings are interest free;
- The group has granted 25,000,000 options in ordinary shares of European Gas Limited. These options are exercisable at A$0.12 if exercised up to 30 September 2010, and A$0.18 if exercised thereafter up to 31 March 2010;
- The loan is repayable on 31 March 2011.

The options granted to the lender have been recognised as transaction costs at its fair value on the grant date being 29 March 2010.

The loan was fully settled on 31 May 2011 following a variation agreement entered into with the lender dated 29 March 2011.

European Gas Limited settled the loan by:
- Issuing 5,000,000 shares (Note 14)
- Issuing 6,000,000 unlisted options exercisable at 50 cents each on or before 30 April 2012 (Note 15).

12. INTEREST BEARING LIABILITIES (CONT'D)

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 were:

- 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.
- 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 41st day of the issue and 7th day before maturity;
  - For Tranche B: anytime after Convertibility Event and 7th day before maturity.
- Conversion price: approximately €0.66 per Note following recent share issues.
- 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.
- Security has been given over the shares in Gazonor S.A. and its immediate holding company, and also over an intercompany loan with the said holding company.

Restructuring Framework Agreement

The Group entered into a restructuring agreement with Transcor Astra Luxembourg SA on 4 February 2011 to sell its interest in Gazonor SA (a 100% subsidiary of European Gas Limited) and issue additional equity instruments in settlement of the convertible notes at 31 March 2011.

On the 6 May 2011 European Gas Limited announced that, further to the Restructuring Framework Agreement announced on 7 February 2011, it has completed the full restructuring (retirement) of the Notes issued to Transcor Astra Luxembourg S.A. (Transcor) on 28 December 2007, through a set of transactions and agreements entered into on 5 May 2011, with the effect of obtaining the immediate and full discharge (retirement) of the Notes. Details of the terms of the discharge are included with Note 6 – Discontinued Operation.

13. PROVISIONS

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Provision for asset restoration and rehabilitation		
Balance at the beginning of the year	-	3,029
-amortisation of provisions	-	530
Balance at the end of the year	-	3,559

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 needed 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 2011 there were 296,161,505 fully paid ordinary shares on issue. (2010: 213,944,359)

Movement in contributed equity	Consolidated Entity			
	2011	**2010**	**2011**	**2010**
	€,000	**€,000**	**Number**	**Number**
At the beginning of the reporting period	32,719	31,281	213,944,359	199,155,662
Shares issued during the year				
Share based payments *	8,859	87	27,000,000	588,697
Share placement **	9,905	1,559	30,217,146	14,200,000
Exercise of options	2,100	-	25,000,000	-
Cost of raising equity	(906)	(208)	-	-
Transfer from option reserve	400	-	-	-
At reporting date	**53,077**	32,719	**296,161,505**	213,944,359

**Share based payments*

- 22,000,000 shares were valued at a price of AU $0.45 each, these were in consideration of the transactions associated with the Restructuring Framework Agreement as stipulated in Note 6 – Discontinued Operation.
- 5,000,000 shares were valued at a price of AU $0.45 each, these were in consideration of the transactions associated with the repayment of the interest free loan as stipulated in Note 12 – Interest Bearing Liabilities.
- 588,697 shares were issued in 2010 at a price of 25.48 cents each, these were in consideration of a A$150,000 implementation fee associated with and Equity Line of Credit Agreement.

*** Share placement*

The company issued 30,217,146 to sophisticated and institutional investors in May 2011 to raise €9,905,000, before costs. These shares were issued at AU$0.45 each.

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.

14. CONTRIBUTED EQUITY (CONT'D)

Issued Options

The following options to issue ordinary shares were on issue as at 30 June 2011. All options outstanding are over unissued shares in European Gas Limited.

Consolidated Entity

	Number	Exercise price
Unlisted options		
- 15 April 2012	2,000,000	$2.50
- 31 Dec 2011	1,500,000	$0.35
- 31 Dec 2011	3,000,000	$0.50
- 31 Dec 2012	10,000,000	$0.70
- 30 Apr 2012	6,000,000	$0.50
- 05 May 2012	20,000,000	$0.50
	42,500,000	

15. SHARE BASED PAYMENTS

The following share-based payments arrangements existed at 30 June 2011

The Company established the European Gas Limited 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.

Subsequently and in general meeting the Company approved the renewal and upgrade of the Employee Share Option Plan ("Incentive Plan") firstly in November 2006 and then in March 2011. These renewals enabled the Company 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.

On 29 March 2010 the Company approved the grant of 25,000,000 short term options in consideration for a A$2.5 million dollar interest free loan from a High Net Worth Private investor. The options are exercisable at any time up until 31 March 2011 at an exercise price of $0.18 per option, if exercised on or before 30 September 2010 the exercise price shall be $0.12 per option.

On 26 November 2010, the Company granted 14,500,000 director options in consideration for the services of the then CEO Mr. Peter Cockcroft. These options vested immediately and have the following exercise prices and expiry date:
- 1,500,000 exercisable at AU$0.35 expiring on 31 December 2011
- 3,000,000 exercisable at AU$0.50 expiring on 31 December 2012
- 10,000,000 exercisable at AU$0.70 expiring on 31 December 2012

15. SHARE BASED PAYMENTS (CONT'D)

On 5 May 2011 the Company granted 20,000,000 short term options in consideration for the settlement of the transactions per the Restructuring Framework Agreement as stipulated in Note 6 – Discontinued Operation. The options are subject to a six month escrow period from date of issue where after it will be exercisable at any time up until 5 May 2012 at an exercise price of AU$0.50 per option.

On 31 May 2011 the Company granted 6,000,000 short term options in consideration for the repayment of the interest free loan as stipulated in Note 12 – Interest Bearing Liabilities. The options are exercisable at any time up until 30 April 2012 at an exercise price of AU$0.50 per option.

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.

	Consolidated Entity			
	2011		2010	
	Number of Options	Weighted Average Exercise Price A$	Number of Options	Weighted Average Exercise Price A$
Outstanding at the beginning of the year	**27,000,000**	**0.37**	**5,500,000**	**1.64**
Granted	40,500,000	0.51	25,000,000	0.18
Lapsed	-		(3,500,000)	1.50
Exercised	(25,000,000)	(0.25)	-	-
Outstanding at year-end	**42,500,000**	**0.63**	**27,000,000**	**0.37**

The options outstanding at 30 June 2011 had a weighted average exercise price of A$0.63 and a weighted average remaining contractual life of 1 years.

The weighted average fair value of the options granted during the year was €0.086.

These prices were calculated by using a Binomial tree option pricing model applying the following inputs:

	Other options	Director options
Estimated terms of the options	1-2 years	0.54 – 1.05
Underlying share price	$0.45 - $0.50	$0.45
Expected share price volatility	50%	115%
Risk free interest rate	4.57% - 4.80%	4.75%

16. RESERVES

Consolidated entity	Option valuation reserve €,000	Foreign currency translation reserve €,000	Available for sale investments reserve €,000	Total €,000
Balance at the beginning of the year	661	(36)	27	652
Movement during the year	2,619	-	8	2,619
At 30 June 2011	**3,280**	**(36)**	**35**	**3,279**

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. PARENT ENTITY DISCLOSURES

As at, and throughout the year ending 30 June 2011 the parent entity of the consolidated entity was European Gas Limited.

	Parent Entity	
	2011	**2010**
	€,000	**€,000**
Results of the parent entity		
Loss for the period	(6,611)	(3,081)
Other comprehensive income	8	27
Total comprehensive loss for the period	**(6,603)**	**(3,054)**
Financial position of the parent entity at year end		
Current assets	9,473	762
Total assets	51,895	65,140
Current liabilities	1,682	39,567
Total liabilities	13,740	43,359
Net assets	**38,155**	**21,781**
Total equity of the parent entity comprising of:		
Share capital	53,077	32,719
Options valuation reserve	3,280	661
Available for sale financial asset reserve	35	27
Accumulated losses	(18,237)	(11,626)
Total equity	**38,155**	**21,781**

At 30 June 2011, the parent entity had no contingent liabilities or commitments to purchase property, plant and equipment. The parent entity has not guaranteed the debts of the controlled entities.

18. CASH FLOW INFORMATION

	Consolidated Entity	
	2011	**2010**
(a) Reconciliation of Cash	**€'000**	**€'001**
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	9,993	1,549
Cash guarantees held at bank	-	-
	9,993	**1,549**
(b) Reconciliation of Cash Flow From Operations with profit / (loss) for the year		
Profit / (Loss) for the year	652	(7,216)
Non-cash flows in loss from ordinary activities:		
Depreciation of non-current assets	359	2,886
Foreign Exchange (Gains)/Losses	133	47
Amortisation of financial liabilities	2,432	1,839
Loss on sale of available for sale financial assets	(13)	79
Write-back of provision	(144)	(2,977)
Gain on sale of Gazonor SA and EGB	(9,254)	-
Write-offs	-	420
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	571	(116)
Increase/(decrease) in trade and other creditors	74	1,452
(Increase)/decrease in other current assets/prepayments	53	(9)
(Increase)/decrease in inventory	257	30
Increase/(decrease) in provisions	3,558	529
Cash Flows From /(Used in) Operations	**(1,322)**	**(3,036)**

	Note	€'000
Material non-cash transactions during the year		
Sale of Gaznor SA and EGB	6	33,728
Extinguishment of convertible notes through issue of equity	6	(39,608)
Extinguishment of Ocean Dome Loan account	12	(2,212)
		(8,092)

Credit Standby Arrangements With Banks

Credit facility – bank overdraft	-	174
Amount used	-	-
Unused and available credit facility	**-**	**174**

19. CONTINGENT LIABILITIES

The Company, in previous financial statements, has made disclosure regarding the SAV Litigation (the litigation and proceedings between Gazonor SAS and Societe Arlesienne de Vinyle).

As Gazonor SAS has now been sold, it is considered that the SAV Litigation has no material effect on the Group going forward.

The Share Purchase Agreement dated 5 May 2011 regarding the sale of Gazonor SAS ('Gazonor', EGL's former operating subsidiary, which is now owned by Transcor France SAS ('Transcor France' or 'Purchaser')) contains a detailed description of the SAV Litigation (as mentioned in several previous announcements and reports by the Company).

In the Share Purchase Agreement ('SPA'), the subsidiary European Gas SAS ('EGSAS') as Seller has given a warranty that except as disclosed per the relevant description and to the best of EGSAS's knowledge, there are no judicial, administrative, arbitration proceedings, investigations or claims involving Gazonor pending or threatened and which may be materially prejudicial to the financial position of Gazonor or the ownership or use of its exploration or production permits. A related indemnity has been given by EGSAS in respect of this warranty and the parent company has guaranteed this indemnity obligation.

In addition, the SPA contains a list of the claims made by EGSAS or Gazonor against Filianor SA in connection with the 2007 acquisition by EGSAS of Gazonor.

Finally, the SPA:
- limits EGSAS's liability in respect of any loss suffered by Gazonor SAS in connection with the SAV Litigation up to a certain disclosed amount.
- imposes an obligation on EGSAS (as Seller) to take all reasonable steps (at the Purchaser's expense) as the Purchaser may reasonably require to enforce recovery of amounts in connection with any loss suffered by Gazonor against Filianor SA and pay to the Purchaser or Gazonor any amounts that are recovered by EGSAS or the Company in connection with the SAV Litigation.

Having regard to the SPA arrangements, no provision has been recorded in the financial statements in respect of this matter.

20. AUDITORS REMUNERATION

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
- auditing services		
• Deloitte Touche Tohmatsu – Australia	64	35
• PKF Chartered Accountants - Australia	-	22
• PKF - France	13	35
• PKF – United Kingdom	24	7
	101	99
- other services		
• PKF Chartered Accountants - Australia	-	35
• PKF – United Kingdom	-	22
	-	57
Total Auditors Remuneration	**101**	**156**

21. SEGMENT REPORTING

The group operates in one operating segment, being exploration and evaluation of gases in Western Europe

The group operates in one geographic segment, being Western Europe.

The segment information for continuing operations are:

	Exploration		Total	
	2011	**2010**	**2011**	**2010**
	€,000	**€,000**	**€,000**	**€,000**
Sales from external customers	-	-	-	-
Operating expenses	-	-	-	-
Depreciation and amortisation charges	-	-	-	-
Other income / (expenses)	-	-	-	-
Write off of exploration costs	-	(420)	-	(420)
Segment profit / (loss)	**-**	**(420)**	-	**(420)**
Administration and other expenses	-	-	(4,366)	(3,353)
Share based payment	-	-	(1,539)	-
Depreciation and amortisation charges	-	-	(46)	(65)
Financial expenses	-	-	(2,916)	(2,934)
Other income and (expenses)	-	-	62	28
Net loss before tax from continuing operations	**-**	**-**	**(8,805)**	**(6,744)**
Segment assets	27,854	27,916	27,854	27,916
Segment assets of discontinued segment	-	28,365	-	28,365
Other assets	-	-	10,126	1,289
Total assets	**27,584**	**56,281**	**37,980**	**57,570**
Segment liabilities	-	206	-	4,955
Interest bearing liabilities	-	-	-	39,193
Other liabilities	-	-	1,801	880
Total liabilities	-	**206**	**1,801**	**45,028**
Additions to non-current assets	-	259	**-**	**259**

Gazonor SA was presented as an operating segment in the financial report for the year ended 30 June 2010. Refer to note 6 for information regarding performance of Gazonor SA, which has been disposed of on 5 May 2011.

22. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

Detail of specified directors and executives

Directors

Julien Moulin (*Appointed 01/09/2009)*

Rodney Bresnehan (*Appointed: 01/09/2009)*

Sebastian Hempel (*Appointed 01/09/2009)*

Peter Cockcroft *(Appointed 07/07/2010, Resigned 06/04/2011)*

Alan J Flavelle (*Resigned 01/09/2009)*

Terence V Willsteed (*Resigned 01/09/2009)*

Specified executives

Frederic Briens, Chief Executive Officer *(Appointed 25/08/2011)*

Johannes Niemetz, Chief Operating Officer & Chief Financial Officer (*Appointed 15/07/2011)*

Mark Pitts, Company Secretary

22. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Remuneration of directors and specified executives

	Short term benefits		Post employment	Termination Benefits		Performance linked remuneration
	Salary & fees	Other	Super-annuation		Total	
	€	€	€	€	€	
Year ended 30 June 2011						
Directors						
Julien Moulin	351,241	-	-	-	351,241	0%
Peter Cockcroft	140,194	1,539,494	-	-	1,679,688	92%
Rodney Bresnehan	124,489	-	11,203	-	135,692	0%
Sebastian Hempel	124,489	-	11,203	-	135,692	0%
Specified executives						
Johannes Niemetz[1]	16,093	-	-	-	16,093	0%
Mark Pitts	70,520	-	-	-	70,520	0%
	827,026	**1,539,689**	**22,406**	**-**	**2,388,926**	**64%**

[1] Mr Niemetz worked as a consultant during the year.

	Salary & fees	Other	Super-annuation	Termination Benefits	Total	Performance linked remuneration
Year ended 30 June 2010						
Directors						
Rodney Bresnehan	34,045	-	-	-	34,045	0%
Sebastian Hempel	33,728	-	-	-	33,728	0%
Julien Moulin	33,335	-	-	-	33,335	0%
Gauthier De Potter	23,712	-	-	-	23,712	0%
Anthony J McClure	34,260	100,890	-	250,613	385,763	0%
Alan J Flavelle	18,507	-	-	42,432	60,939	0%
Terence V Willsteed	6,858	-	-	-	6,858	0%
					-	
Specified executives					-	
Mark Pitts	41,618	-	-	-	41,618	0%
	226,063	100,890	-	293,045	619,998	0%

22. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Movement in shareholding of directors and executives

	Opening balance Nos.	Acquired Nos.	On ceasing date Nos.	Closing balance Nos.
Year ended 30 June 2011				
Directors				
Julien Moulin	-	-	-	-
Peter Cockcroft	-	-	-	-
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Specified executives				
Johannes Niemetz	-	-	-	-
Mark Pitts	-	-	-	-
Year ended 30 June 2010				
Directors				
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Julien Moulin	-	-	-	-
Gauthier De Potter	-	-	-	-
Anthony J McClure	3,820,752	-	3,820,752	-
Alan J Flavelle	950,000	-	950,000	-
Terence V Willsteed	4,000,000	-	4,000,000	-
Specified executives				
Mark Pitts	-	-	-	-
	8,770,752	**-**	**8,770,752**	**-**

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under an arm's length terms and conditions.

22. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Movement in option holding of directors and executives

	Opening balance Nos.	Granted Nos.	Lapsed Nos.	On ceasing date Nos.	Closing balance Nos.
Year ended 30 June 2011					
Directors					
Julien Moulin	-	-	-	-	-
Peter Cockcroft	-	14,500,000	-	14,500,000	-
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Specified executives					
Mark Pitts	-	-	-	-	-
		14,500,000		**14,500,000**	
Year ended 30 June 2010					
Directors					
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Julien Moulin	-	-	-	-	-
Gauthier De Potter	-	-	-	-	-
Anthony J McClure	1,875,000	-	-	1,875,000	-
Alan J Flavelle	1,375,000	-	-	1,375,000	-
Terence V Willsteed	750,000	-	-	750,000	-
Specified executives					
Mark Pitts	-	-	-	-	-
	4,000,000	-	-	4,000,000	-

Balances due to directors and executives

The following balances were due at reporting dates for the services rendered:

	2011 €	2010 €
Julien Moulin	299,880	-
Rodney Bresnehan	80,278	-
Sebastian Hempel	80,278	-
Mark Pitts	9,352	-
	469,788	**-**

23. 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 paid fees of €Nil (2010: €31,678) to Greenwich Legal Services Pty Ltd, of which Mr Sebastian Hempel is an associate. Mr Hempel did not perform any work associated with these fees and as such received no remuneration associated with these fees.
ii. European Gas Limited paid fees of €24,735 (2010: €Nil) to Bresnehan & Associates Pty Ltd, of which Mr Bresnehan is an associate.

24. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of €651,243 (2010: loss of €7,215,770) for continuing and discontinued operations and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2011 of 239,143,369 (2010: 209,859,818), calculated as follows:

		Consolidated Entity	
		2011	**2010**
		€,000	**€,000**
a.	Profit (Loss) attributable to ordinary shareholders		
	Profit (Loss) used in the calculation of basic and dilutive loss per share from continuing and discontinued operations	652	(7,216)
	Profit (Loss) used in the calculation of basic and dilutive loss per share from continuing operations	(8,805)	(6,775)
		Number	Number
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	239,143,369	209,859,818
	Weighted average number of dilutive options outstanding	-	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	239,143,369	209,859,818
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		
	Equity share options	42,500,000	27,000,000
	Convertible notes	-	48,500,000
		42,500,000	75,500,000

25. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments:

		Consolidated Entity	
		Carrying amount	Fair Value
At 30 June 2011	**Note**	**€,000**	**€,000**
Cash and cash equivalent	a	9,993	9,993
Trade and other receivable	a	57	57
Available for sale financial assets	b	60	60
Trade and other payables	a	(1,801)	(1,801)
Interest bearing liabilities	c	-	-

		Consolidated Entity	
		Carrying amount	Fair Value
At 30 June 2010	**Note**	**€,000**	**€,000**
Cash and cash equivalent	a	1,549	1,549
Trade and other receivable	a	1,233	1,233
Available for sale financial assets	b	138	138
Trade and other payables	a	(1,845)	(1,845)
Interest bearing liabilities	c	(39,193)	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 fair value of interest bearing liabilities has not been determined as the group does not intend to trade in these financial instruments.

25. 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.

	Consolidated Entity	
	2011	**2010**
	€,000	**€,000**
Maximum Credit Risk	57	1,233
	57	**1,233**

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.

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

The following are the contractual maturities of the financial liabilities.

At 30 June 2011	Up to 6 months €,000	6 - 12 months €,000	1 - 3 years €,000	Total €,000
CONSOLIDATED ENTITY				
Trade and other payables	1,801	-	-	1,801
Short term loan	-	-	-	-
Convertible note - interest and principal	-	-	-	-
	1,801	**-**	**-**	**1,801**

At 30 June 2010	Up to 6 months €,000	6 - 12 months €,000	1 - 3 years €,000	Total €,000
CONSOLIDATED ENTITY				
Trade and other payables	1,845	-	-	1,845
Short term loan	-	1,731	-	1,731
Convertible note - interest and principal	38,952	-	-	38,952
	40,797	**1,731**	**-**	**42,528**

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

	Consolidated Entity	
	2011 €,000	2010 €,000
Cash	9,993	1,549

25. 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 Consolidated Entity +/- (€)
2011	1.00	99,926
2010	1.00	15,485

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 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	Consolidated Entity	
	2011 €,000	**2010 €,000**
Cash	8,865	672
Current – receivables	-	-
Financial assets	60	138
Current – payables	(119)	(302)
	8,806	**508**

	Profit or loss and equity	
Effect of change in exchange rates by 25%	**2011 €,000**	**2010 €,000**
Appreciation of Euro	2,935	169
Depreciation of Euro	(1,761)	(102)

Exchange rate at reporting dates are 0.7246 (2011) and 0.6979 (2010)

Using a sensitivity movement of 25%, the impact on profit and loss can be clearly seen. Based on the historical deviation of the foreign exchange rate; the management considers a movement of 25% as reasonable expectation.

e) *Commodity Price Risk*

At year end the Group was no longer exposed to the changes in commodity prices affecting the revenue received from the sale of gas. This is due to the disposal of the Gazonor production facility as per the Restructuring Framework Agreement as discussed in Note 6 – Discontinued Operations.

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

f) *Equity Price Risk*

The Group holds investments in one listed entity, and as such these are subject to varying valuations based on its current market price. The carrying value of the asset in the balance sheet represents the closing price of the entity 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.

	Consolidated Entity	
	2011 €,000	**2010 €,000**
Available for sale financial assets	60	138

Effect of change in equity prices	**Price Change +/-%**	**Impact on Profit and Loss Consolidated Entity +/- (€)**
2011	10.00	6,017
2010	10.00	13,837

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.

g) *Capital Risk Management*

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

The Consolidated 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 consolidated entity's exploration and appraisal activities in discrete tranches. The overall strategy of Consolidated Entity's remains consistent and unchanged from that of 2010.

26. CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%) 2011	2010
Controlled entities and their contribution to consolidated loss			
Parent Entity:			
- European Gas Limited	Australia		
Subsidiaries of European Gas Limited:			
- European Gas S.A.S.	France	100	100
- Gazonor S.A.*	France	Nil	100
- European Gas Limited (UK)	United Kingdom	100	100
- Heritage Petroleum Ltd	United Kingdom	100	100
Jointly controlled entity:			
- European Gas Benelux S.A.*	Belgium	Nil	50

***** *Refer Note 6 – Discontinued Operation for further details.*

27. EVENTS SUBSEQUENT TO REPORTING DATE

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

On 25 August 2011, the Board appointed Mr Frederic Briens to the position of Chief Executive Officer. Mr. Briens holds an M.S. and a Ph.D. in Petroleum Engineering from Texas A&M University, a Master's degree in Business Administration from Colorado State University and an Engineering degree from Ecole Centrale de Paris. Mr. Briens is a Petroleum Engineer with over twenty five years of operating and management experience in international conventional and unconventional oil and gas projects. When at Conoco, Mr. Briens was part of the technical team that evaluated the CBM potential in Western Europe including the Lorraine and Rhur basins.

Other than the above appointment there were no significant events that have occurred between the reporting date and the date of this financial report.

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Website: www.europeangas.com.au

The directors of European Gas Limited declare that:

(a) in the directors' opinion the financial statements and notes on pages 28 to 70 and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 22 to 26, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations).

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

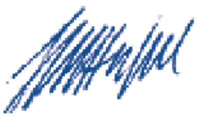
(c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and

(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 2011, required by Section 295A of the Corporations Act 2000.

Signed in accordance with a resolution of the directors

On behalf of the Board



Sebastian Hempel – Director
Dated at Perth, Western Australia this 30th day of September 2011.

Deloitte.

Deloitte Touche Tohmatsu
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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 statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising European Gas Limited and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 71 .

Directors' Responsibility for the Financial Report

The directors of European Gas Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those 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 of the financial report that gives a true and fair view, 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.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of European Gas Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte

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 consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in page 22 to 26 of the directors' report for the year ended 30 June 2011. The directors of European Gas Limited 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.

Opinion

In our opinion the Remuneration Report of European Gas Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants
Perth, 30 September 2011

Pursuant to the Listing Requirements of the Australian Stock Exchange Limited, the shareholder information set out below was applicable as at 30 September 2011.

(a) Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of shareholders
1 -1,000	186
1,001 -5,000	377
5,001 - 10,000	297
10,001 -100,000	449
More than 100,000	101
TOTALS	**1,410**

There were 268 shareholders holding less than a marketable parcel of ordinary shares.

(b) Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are listed below:

Shareholder Name	Ordinary Shares	
	Number	Percentage of Issued
JP Morgan Nominees Australia Limited	79,863,248	26.87
HSBC Custody Nominees Aust Ltd	58,134,213	19.56
Merrill Lynch (Australia) Nominees Pty Limited	50,218,177	16.89
Transcor Astra Luxembourg SA	22,000,000	7.40
National Nominees Limited	20,819,128	7.00
ABN Amro Clearing Sydney Nominees Pty Ltd	6,965,338	2.34
Citicorp Nominees Pty Limited	4,116,440	1.38
HSBC Custody Nominees (Australia) Limited A/C 3	3,500,000	1.18
NEFCO Nominees Pty Ltd	2,653,277	0.89
Travelly Pty Ltd	2,000,000	0.67
PYNC Pty Ltd	1,500,000	0.50
Mrs Carole Christine Rowan	1,375,000	0.46
Mr Shane Bach	1,200,000	0.40
Ross Asset Management Limited	950,000	0.32
Picton Management Services Pty Ltd	750,000	0.25
Umbiram Pty Ltd	726,400	0.24
Laker Family Nominees Pty Ltd	723,455	0.24
Mr R.L. Hanwright & Mrs M. J. Hanwright	575,000	0.19
Mr Kenneth Bruce Willimott	541,000	0.18
Dr Kim Russell Sawyer & Mrs Kessada Sawyer	540,000	0.18
TOTAL	**259,150,676**	**87.18**

(c) Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who holds 5% or more of the issued capital) is set out below:

Shareholder Name	Issued Ordinary Shares	
	Number of shares	Percentage of shares
Maoming Fund	46,933,340	15.78
Banque Privée Edmond de Rothschild S.A.	30,871,780	10.38
Ocean Dome Corporation	30,050,000	10.10
Transcor Astra Luxembourg SA	27,823,434	9.35

(d) Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

(e) Unquoted Securities

Unquoted securities on Issue as at 30 September 2011:

Options Issued To	Grant Date	Number Under Option	Exercise Price	Expiry Date
Options Issued as an Incentive:				
Director Options	31 Dec 2010	1,500,000	$0.35	31 Dec 2011
	31 Dec 2010	3,000,000	$0.50	31 Dec 2012
	31 Dec 2010	10,000,000	$0.70	31 Dec 2012
Issued in settlement of commercial obligations:				
Consultant Options	15 April 2008	2,000,000	$2.50	15 April 2012
Ocean Dome Corporation	3 May 2011	6,000,000	$0.50	30 April 2012
Transcor Astra Luxembourg SA	6 May 2011	20,000,000	$0.50	5 May 2012

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