



QUARTERLY REPORT 30 SEPTEMBER 2011

HIGHLIGHTS

Management

- Dr. Frederic Briens joined the Company in September 2011, as Chief Executive Officer. Dr. Briens brings a unique and successful combination of industry experience and market expertise for small cap exploration companies and will lead the Company in its next growth phase.
- Mr. Johannes Niemetz joined the Company in July 2011, as Chief Operating Officer and Chief Financial Officer. Mr. Niemetz brings an extensive and successful expertise in mergers & acquisitions, operational finance and commercial operations.
- Dr. Chris Cornelius joined the Company in October 2011 as Unconventional Oil and Gas Advisor. Dr. Cornelius is a recognized expert in unconventional hydrocarbons and will lead the Company in securing new highly prospective projects. Dr. Cornelius has a long track record of successful exploration and development ventures.

Restart of Operations

- On October 13th, 2011, the French Authorities have confirmed the validity of the Company's exploration permits. The Company has delivered to the Government technical reports outlining its exploration approach that does not rely on the technique of hydraulic fracturing, recently prohibited in France for the exploration and exploitation of hydrocarbons.
- Following the successful restructuring of its debt and the issuance of new equity, the Company has now resumed its operations in the field.
- An intervention has been conducted on the Folschviller-2 well to replace the electric submersible pump (ESP) installed in the well by a progressing cavity pump (PCP) that offers more flexibility in the testing of the well. The objective of the test is to start the evaluation of the gas producibility of the Lorraine coals. The test is expected to last a few weeks, starting with a dewatering phase.
- EGL is currently assessing the technical feasibility of re-entering the Folschviller-2 well and drill a thick coal seam above the two lateral holes in the well. The objective is to drill several lateral holes within that new seam and further validate the gas producibility of the Lorraine coals.

Company Information

Board of Directors

Julien Moulin (Executive Chairman)
Rod Bresnehan (Non Executive Director)
Sebastian Hempel (Non Executive Director)

Executives

Frederic Briens (Chief Executive Officer)
Johannes Niemetz (Chief Operation/Financial Officer)

Company Secretary

Mark Pitts

ASX Code: EPG
Shares on Issue: 297,272,505
Unlisted Options: 44,500,000

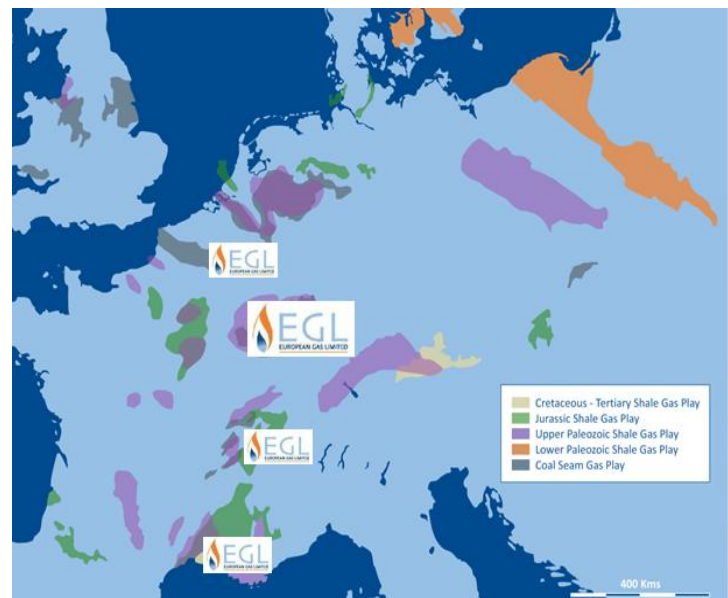


Figure 1: Projects Location Map

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- The Company has embarked on comprehensive geological modeling studies to complement the previous evaluations that covered a restricted part of the its permits in France. These studies will quantify the total potential of the areas where the coals could be developed and guide the Company in its exploration and appraisal program. The reprocessing of seismic data pertinent to the Sud-Midi exploration permit where EGL holds a 70% interest earn-in right is included in the upcoming work program.

New ventures

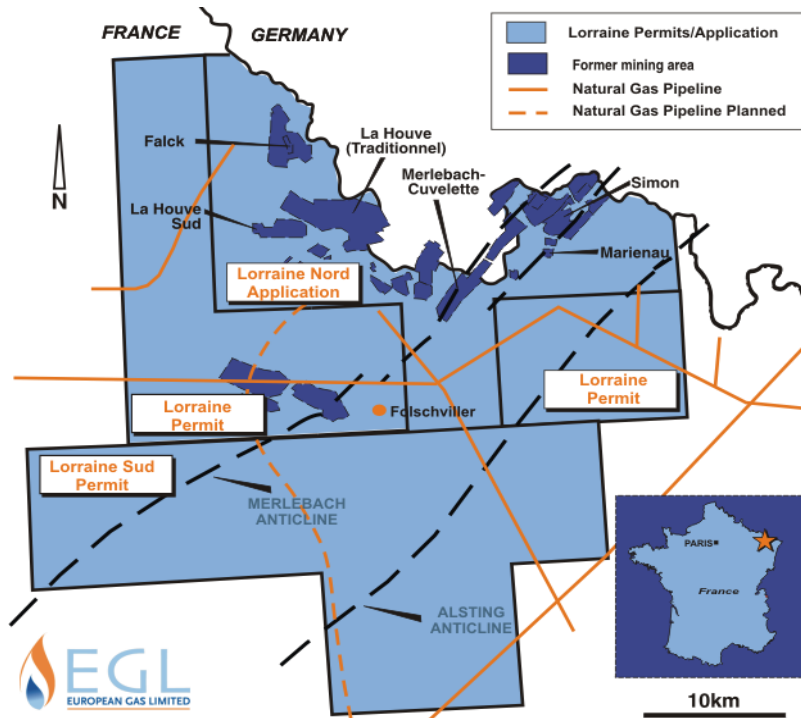
- Beyond the development of its French CBM assets that will provide a significant organic growth component, EGL is preparing for new ventures that will diversify its operations in other countries of Europe and in other geological plays than CBM.
- As such, the Company is pursuing Tight Gas Sands and Tight Oil Sands opportunities in other European countries, including Turkey, both from a Joint Venture or acreage acquisition perspective.
- Pertinent to a diversification strategy for its coal bed methane plays, the Company is pursuing two Joint Ventures opportunities in Germany and Belgium.

LORRAINE

Eastern France

European Gas holds a 100% interest in two permits, covering 788km² of the Lorraine Basin. In May 2010, the Company received notification of renewal of the Bleue Lorraine exploration permit which covers an area of 262km² 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 360km² (refer Figure 2).

FIGURE 2: LORRAINE PROJECT



Work on the Lorraine CBM project during the quarter focused on the continuation of testing the Folschviller-2 well, restarted in the latter part of September 2011 and 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 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.

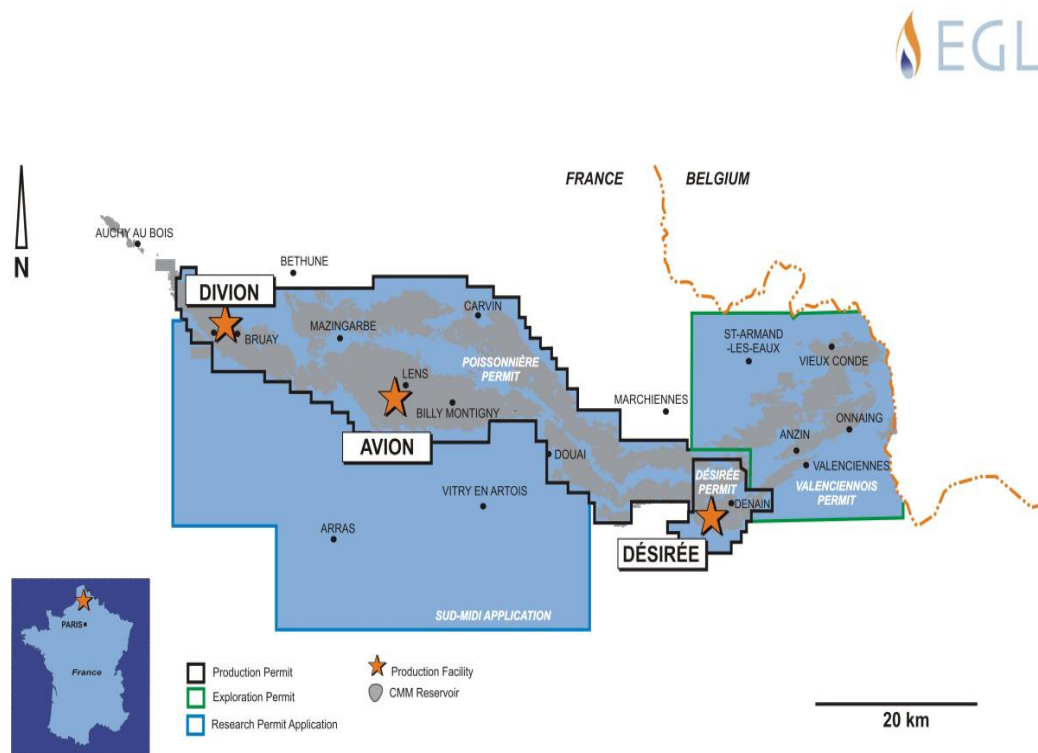
The Company is also embarking on a comprehensive geological modelling programme for all its Lorraine permits (including the application for the Bleue Lorraine Nord permit) to high grade drilling locations and quantify its gas potential. Operationally, EGL is working to define the feasibility to re-enter the Folschviller-2 well and drill a third coal seam to continue in the validation of the gas producibility of the Lorraine coals.

Nord, Pas de Calais

Northern France

The Gazonor Company 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 767 km². In addition two permits were granted for a total surface of 1,352 km² (Valenciennois and Sud Midi) dedicated for exploration of CMM and CBM (refer Figure 3).

FIGURE 3: GAZONOR PROJECT



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 into the production sharing agreement.

The Company has also a 70% interest earn-in right to the Sud Midi exploration permit (see Figure 3) once it has expenses 2,000,000 euros on this permit and an equal 70% interest earn-in right on the Valenciennes permit (Figure 3) after expensing an amount of 795,000 euros. EGL is currently carrying out a comprehensive geological modeling

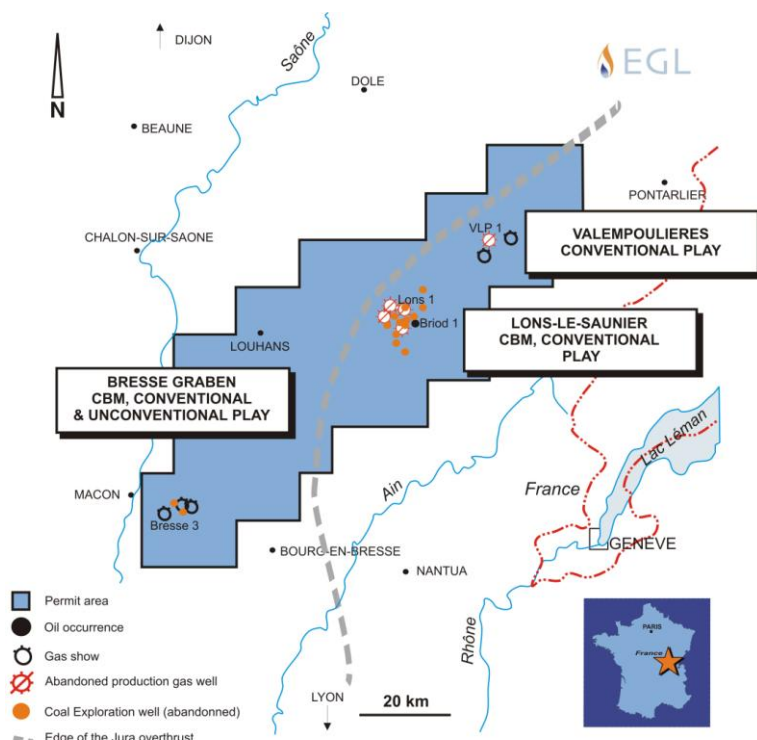
exercise on the coal gas potential of these 3 permits and preparing for a seismic reprocessing exercise on data pertinent to the Sud Midi permit.

JURA (LONS-LE-SAUNIER)

Central France

The 3,795km² 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 4).

FIGURE 4: LONS LE SAUNIER PERMIT



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 the pertinence to request an extension of the time scheduled to comply with the commitments of this concession.

In light of the possible social issues that could develop during field operations, the Company is preparing a communication campaign that will focus on the various stakeholders present in the area of the permit.

GARDANNE

Southern France

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.

BENELUX JOINT VENTURE

Belgium

Benelux JV ownership was originally 50% European Gas and 50% Transcor, with European Gas as the operator. Recently, 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, which today comprises the Hainaut permit that Benelux JV applied for during year 2009.

SOUTHERN TUSCANY

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. As such, the Company will no longer make reference in its quarterly reports to these applications.

CANNING BASIN

Western Australia

The Company has two Royalty Agreements with Buru Energy Limited (Buru) in respect to the Company's former Canning Basin assets.

On 18 October 2011, Buru reported flows of light oil out of its Ungani 1ST1 well, and a follow-up appraisal well is planned.

That well is located in Exploration Permit EP 391 and that Permit is within the Royalty Area covered by one of the Company's royalty agreements with Buru. Subject to the terms of the agreement, the Company would be entitled to be paid a royalty at the rate of 2% of the Well Head Value of Petroleum recovered from the Royalty Area.

The Company continues to receive a small royalty income stream from Buru on existing production.

NEW VENTURES

An important growth component of EGL is to be found in the various new ventures that the Company is pursuing in Europe, including Turkey. These selective new ventures are part of the diversified portfolio strategy to enter countries other than France and pursue new geological plays such as tight gas sands and tight oil sands. At the present time, the Company is evaluating projects in Germany, Turkey and other European countries.

FINANCIALS APPENDIX 5B

As at 30 September 2011, the Company had available funds of approximately AUS \$11.8 million.

The attached Appendix 5B includes the consolidated quarterly cash flows of the Company and other financial disclosures.

ABOUT EUROPEAN GAS LIMITED

European Gas Limited is a European focused independent unconventional hydrocarbons exploration company. EGL currently owns several significant assets in France and is pursuing other potentially large projects in Europe.

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