

QUARTERLY REPORT 30 JUNE 2011

HIGHLIGHTS

Trading

- The company resumed trading on 7 June 2011 following a successful restructuring and strengthening of the balance sheet.
- The company has net cash of € 9.87m (AUS \$ 13.41m) on its balance sheet as at 30 June 2011
- Share price of AUS \$ 0.39 as at 30 June 2011

Restructuring and Placement

- On 6th May 2011, EGL completed the restructuring of convertible notes issued to Transcor Astra Luxembourg SA.
- EGL sold 100% of its interest in the existing facilities and proved reserves of Gazonor to Transcor and issued 22 million shares at AUS \$0.50 each.
- EGL entered into a separate agreement for a joint venture with Transcor wherein EGL can earn up to 70% working interest in Sud Midi and Valenciennois exploration permits.
- EGL agreed terms for the conversion of a short term loan into equity at AUS \$0.50 per share.
EGL has entered into a Production Sharing Agreement with Transcor in respect to existing production permit areas. Whereby it will aim to increase revenue and enhance gas production, the terms of the agreement provide for the Company to earn a participating interest of 70% in any increased revenue.
- EGL conducted a private placement for up to 33 million shares at AUS \$ 0.45 per share. The Company is now debt free.

Exploration

- Geological mapping in the Sud Midi permit and preparation for seismic re-processing and drilling
- Proposed seismic and exploration drilling program during the next 12 months in Lorraine will permit detailed evaluation of resource blocks prior to implementation of a proposed pilot project
- Incorporation of previous mine drilling and mapping information into the geology database for the Lorraine permits
- The Company upgraded its capacity to undertake detailed geologic mapping with the implementation of a new geology data base system and a variety of analytical software tools

Company Information

Board of Directors

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

Company Secretary

Mark E Pitts

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

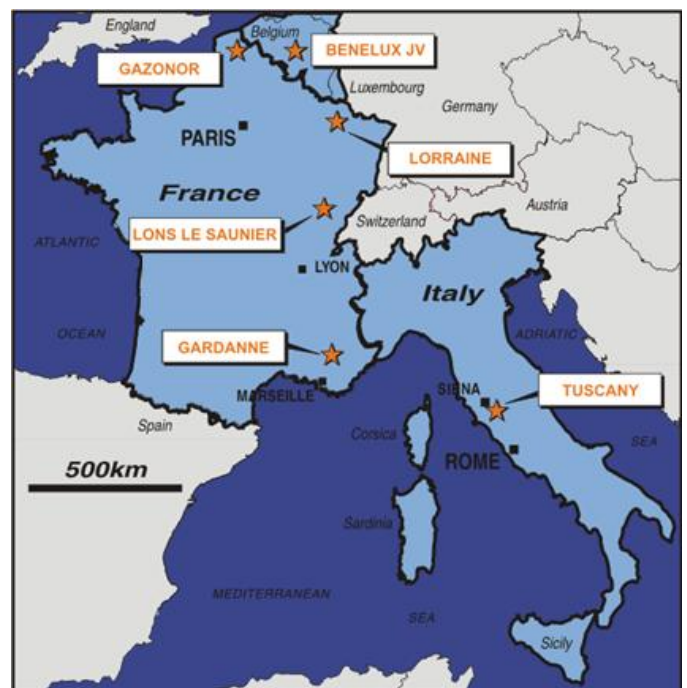


Figure 1: Projects Location Map

EUROPEAN GAS LIMITED
ABN 75 075 760 655

Suite 8, 7 The Esplanade
Mt Pleasant
WA 6153
AUSTRALIA
Telephone: +61 8 9316 9100
Fax: +61 8 9315 5475

Nord, Pas de Calais Projects

Northern France

As part of the restructuring, European Gas 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. The Company has sold its Gazonor production unit while keeping the option to participate in production of new gas from within the Poissonnière and Désirée concessions by funding the first € 1m of new exploration and development expenditures.

The Valenciennois exploration permit, comprising an area of 432 square kilometres (km²), was granted in October 2009. The Sud Midi exploration permit has been granted on June 16th 2010 and covers an area of 929 km².

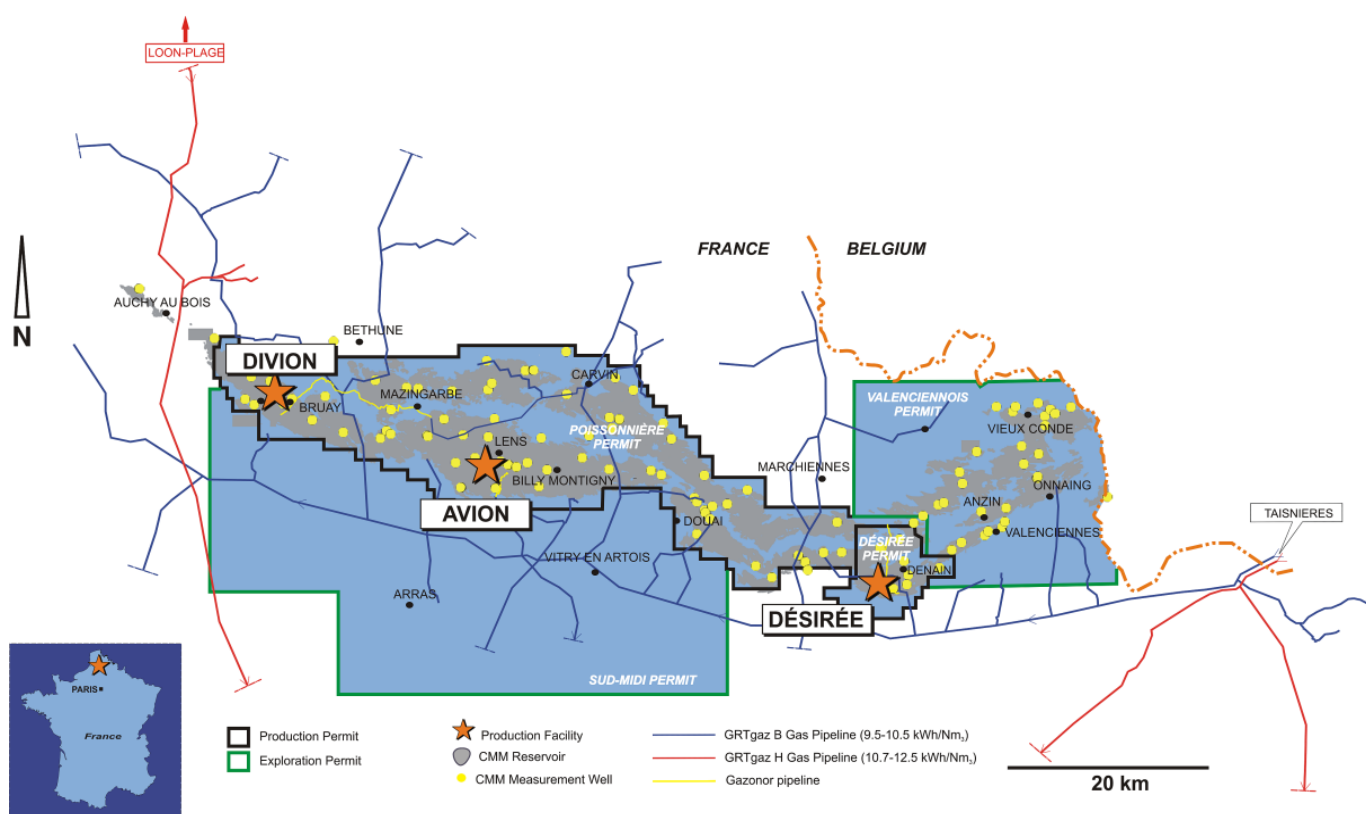


Figure 2: Nord, Pas de Calais Project Location Map

Exploration Program

The Company proposes to continue with exploration projects which have been previously identified on the Nord Pas de Calais permits. Through the restructuring period EGL continued to work on geological mapping in the Sud Midi permit and has prepared plans for seismic re-processing and drilling in the next year to meet its exploration expenditure commitments. A proposal to test existing wells in the Valenciennois permit is expected to be approved by the authorities in the next quarter.

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 360 km² (Lorraine Nord). (see Figure 3.)

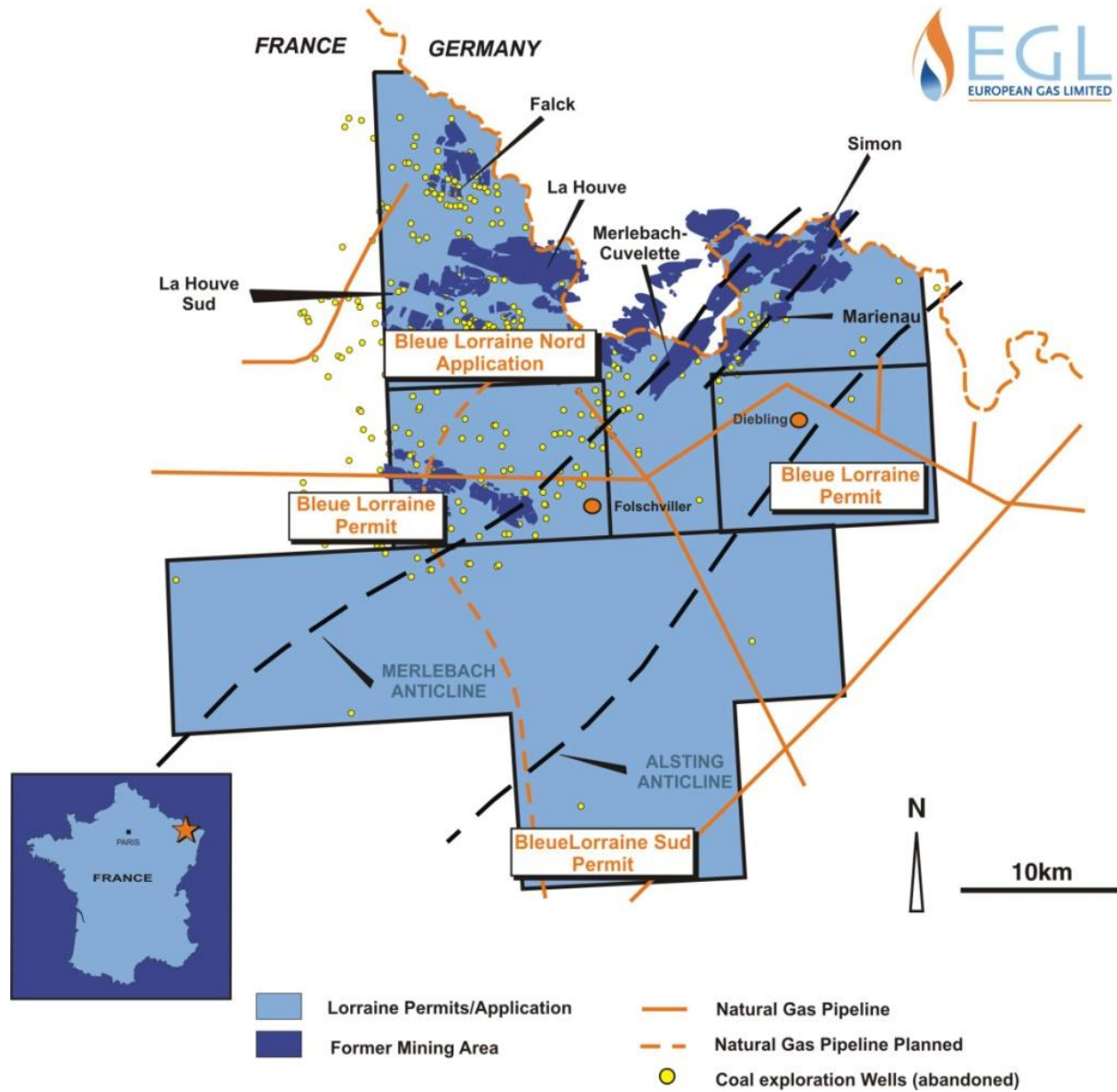


Figure 3: Lorraine Project Location Map

Exploration

During the quarter the results of the independent resource study by MHA Petroleum Consultants 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. Company exploration personnel continued to incorporate previous mine drilling and mapping information into the geology database for the Lorraine permits. The Company upgraded its capacity to undertake detailed geologic mapping with the implementation of a new geology data base system and a variety of analytical software tools.

Well Test

Independent evaluation of the Folschviller 2 well test data by MHA at the end of calendar 2010, 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. Such a test would be expected to provide a first demonstration of the unit productivity (production rate per unit length of lateral) of a lateral well in the Lorraine coals. During the quarter the Company has completed the design and planning for a well service operation to re-configure the well for a long term test and is in the process of securing a rig for the work to be performed.

JURA (LONS-LE-SAUNIER)

Central France

European Gas holds a 100% interest in the Jura (Lons-le-Saunier) permit.

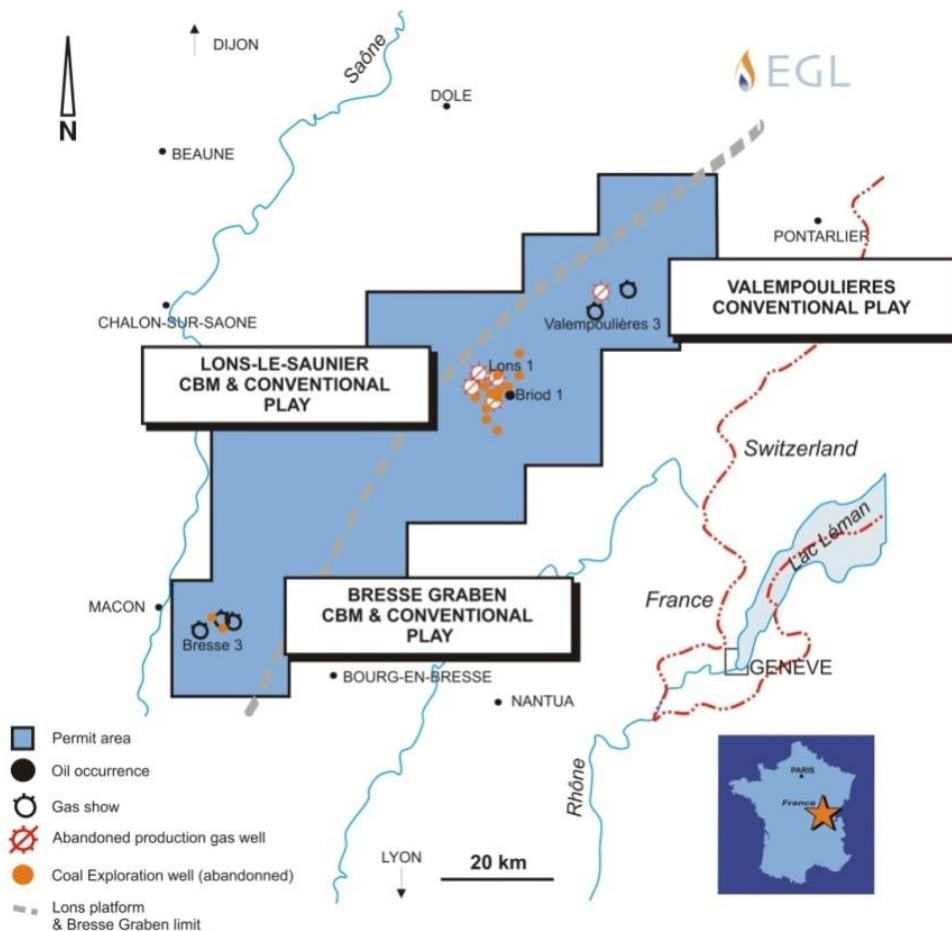


Figure 4: Jura (Lons-le-Saunier) Project Location Map

Exploration Program

The 3,795km² 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 (see Figure 4.).

During the quarter under review an independent assessment of the conventional gas and oil opportunities on the Jura permit was carried out by RISC Consultants. The results of this work 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. EGL is acting on the results of this work and focussing its exploration efforts on the coalbed methane.

The potential source and reservoir rocks in the deeper Bresse Graben have been mapped in the parts of the structure covered by re-processed seismic. The prospectivity of this area for conventional oil and gas was also reviewed by the Consultants who concluded that the conventional prospects which could be identified from the available data did not present better opportunities than the coalbed methane. The Company has re-considered the benefits of a seismic acquisition program in the Bresse Graben in the light of the Consultants findings and after reviewing the proposed new French legislation regarding the development of unconventional resources.

In the area around Lons le Saunier the Stephanian coals are known from previous mining exploration drilling. These coals are identified on re-processed seismic which also shows that there may be coal present outside the drilled area. Plans for 2011 include identification of a location for a well to test the coals.

GARDANNE

Southern France

European Gas holds a 100% interest in the “Gaz de Gardanne” permit. The area is within a larger unconventional resource target area which has been the subject of significant permitting interest in the last year.

Exploration Program

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 were completed during the quarter. A well design and an application for drilling are planned for the first quarter 2012.

BENELUX JOINT VENTURE

Belgium

European Gas has sold to Transcor, as part of the restructuring, its 50% interest in a joint venture company created for the purposes of securing title, exploring, developing, extraction and marketing of hydrocarbons including CBM, CMM and conventional oil and gas within Belgium, the Netherlands and Luxembourg (“European Gas Benelux S.A.”).

SOUTHERN TUSCANY

Italy

No work was conducted during the quarter in relation to the three permit areas for which preliminary environmental impact studies have been submitted to the Regione Toscana.

CANNING BASIN

Western Australia

Royalties from Buru Energy

The Company is currently receiving a small royalty income stream from Buru Energy. The royalties are being paid 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. The royalty revenue for the financial year ended 30 June 2010 was €24,000 and the royalty revenue for the 12 months to 30 June 2011 was €17,496. These royalties are paid at the rate of 3% of the Well Head Value of all Petroleum recovered from the area covered by those 2 Production Licences.

The Company also holds a contractual entitlement to royalties from Buru Energy in respect of several other tenements also located in the Canning Superbasin in Western Australia. The royalty rate is 2% of the Well Head Value (3% on EP 129) of any Petroleum recovered.

CORPORATE

Restructuring

During the quarter the Company has completed the restructuring 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 of the Notes. The restructuring of the Notes has been implemented through the combination of the following:

(i) subscription by Transcor for 22m EGL shares at AUS \$ 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 20m EGL shares at an exercise price of AUS \$ 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 Poissonnière and Désirée production permits.

Conversion of Unsecured Loan

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

On 31 May 2011 EGL announced that the Company had issued Ocean Dome Corporation 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.

Private Placement to raise up to AUS \$ 15 Million

As at 30 June 2011 30,217,146 ordinary shares had been issued at AUS \$ 0.45 raising an amount of AUS \$13.5 million. The Company expects the balance of funds shortly.

Strong balance sheet: EGL's main obstacle to growth, its large debt burden (EUR40m+) is now completely gone with limited dilution for the shareholders. With no outstanding debt and sufficient funding for its medium term exploration and development programs, EGL is well positioned to pursue its growth strategy.

Strong share register: EGL has significantly strengthened its shareholder base with 75% of the shares now owned by long term international institutional investors.

Resumption of Trading

Following the completion of the restructuring and successful recapitalization, the Company resumed trading on 7 June 2011.

Strengthening of the technical team

EGL's technical team continues to strengthen under the leadership of Rod Bresnehan and Eric Allen in Lorraine, France to apply best-in-class Australian and North American expertise to our blocks geologically well understood by our team of local geologists.

Executive Chairman

EGL Chairman Julien Moulin agreed to take on an executive role during the quarter to assist the Company whilst it builds an appropriate executive team.

Mr Moulin has executed an engagement letter on terms considered to be standard in the industry. Key terms include:

- Total remuneration of €150,000
- Termination by either party on 3 months notice
- Long term incentive to include up 6m options, subject to shareholder approval, exercisable at AUS \$0.50 on or before 31 December 2012

FINANCIALS APPENDIX 5B

As at 30 June 2011, the Company had available funds of approximately AUS \$13.4 million.

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

ABOUT EUROPEAN GAS LIMITED

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

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

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

Corporate Office

2, rue de Metz

Freyring-Merlebach 57800 FRANCE

Tel: +33 3 87 04 32 11

Fax: +33 3 87 93 52 37

E-mail: info@europeangas.fr

Website: www.europeangas.fr

Perth Office

Suite 8, 7 The Esplanade

Mt Pleasant, WA 6153 Australia

Tel: +61 8 9316 9100

Fax: +61 8 9315 5475

Email: info@europeangas.com.au

Website: www.europeangas.com.au