

QUARTERLY REPORT 31 MARCH 2011

HIGHLIGHTS

Corporate

- The Company announced a Restructuring Agreement with Transcor Astra Luxembourg (“Transcor”) on 7 February 2011, which includes the sale of Gazonor SAS and an issue of 22 million shares to Transcor
- Shareholders approved the proposed transaction with Transcor at the EGM held on 28 March 2011.

Company Information

Board of Directors

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

Company Secretary

Mark E Pitts

ASX Code: EPG
Shares on Issue: 238,944,359

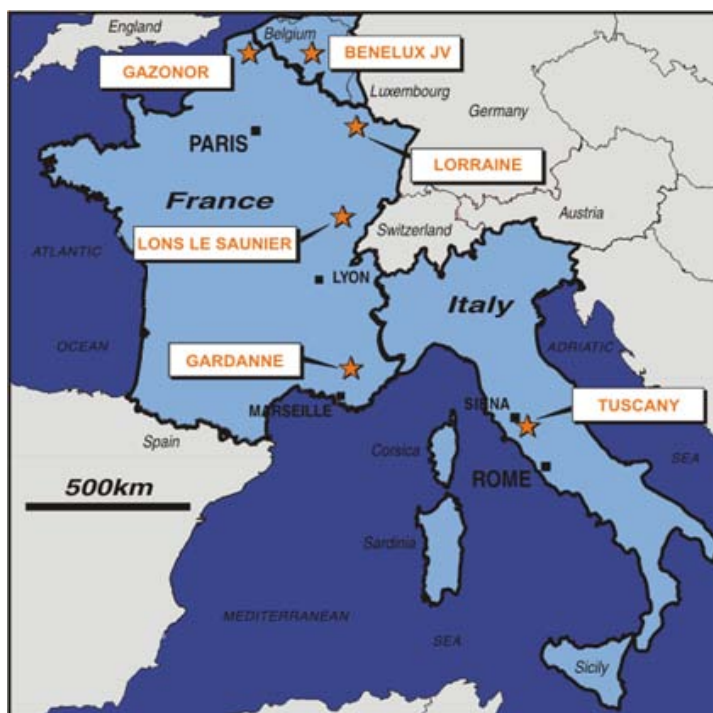


Figure 1: Projects Location Map

GAZONOR

Northern France

European Gas is finalising the sale of its 100% interest in the Gazonor project in Northern France, via a sale of the company Gazonor SAS. The sale includes 100% of the CMM gas production facilities however European Gas is retaining 70% of the gas exploitation rights through production sharing agreement over the Poissonnière and Désirée concessions and a farmin arrangement over the Valenciennois and Sud Midi permits, comprising a total area of 2,128 square kilometres (km²).

Exploration Programme

As part of the farmin agreement presently being finalised as part of the company restructure, European Gas is evaluating the Coal Mine Methane (CMM) and CBM (Coal Bed Methane) resources which will be available to the Company going forward in the Gazonor area permits, including the identification of drilling locations.

As part of the Production sharing agreement, The Company has a EUR 1m spending commitment on the Possoniere and Desiree Concessions.

As part of the farmin arrangement, The Company has a EUR 2m spending commitment on the Sud Midi permit and a EUR695k spending commitments on the Valenciennois permit.

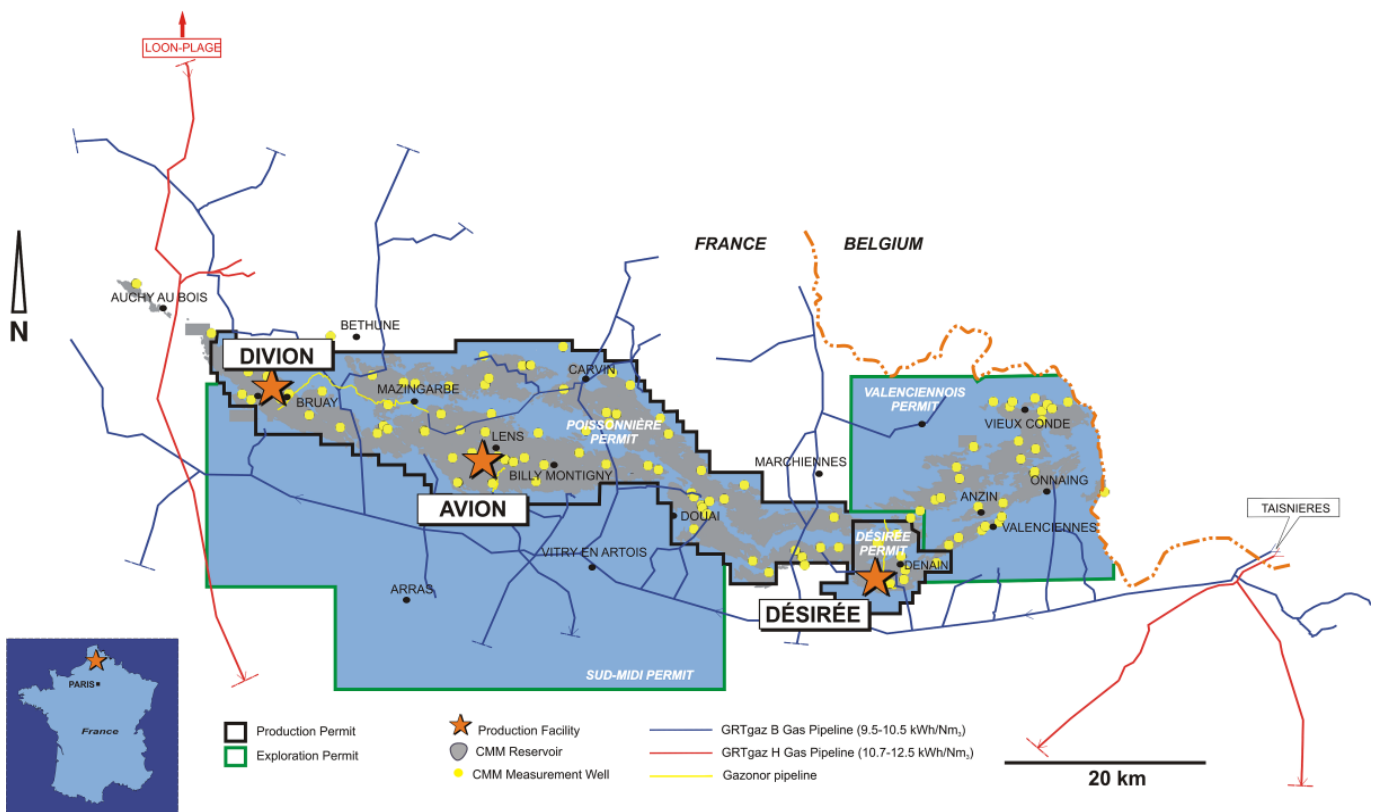


Figure 2: Gazonor Project Location Map

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 an application for an additional 360 km² (Lorraine Nord). (see Figure 3.)

European Gas is reviewing exploration options, including farm-ins, for the next phase of drilling in the Lorraine area to be implemented following the company restructure and refinancing.

This follows the release by the Company on 2 February 2011 of the results of MHA’s positive study on the area’s prospectivity, with assessed contingent resources C1, C2, C3 of 40Bcf, 2.35 Tcf and 7.91 Tcf respectively on the Alsting Anticline area only. This bodes extremely well for the prospectivity of other areas within our Lorraine blocks.

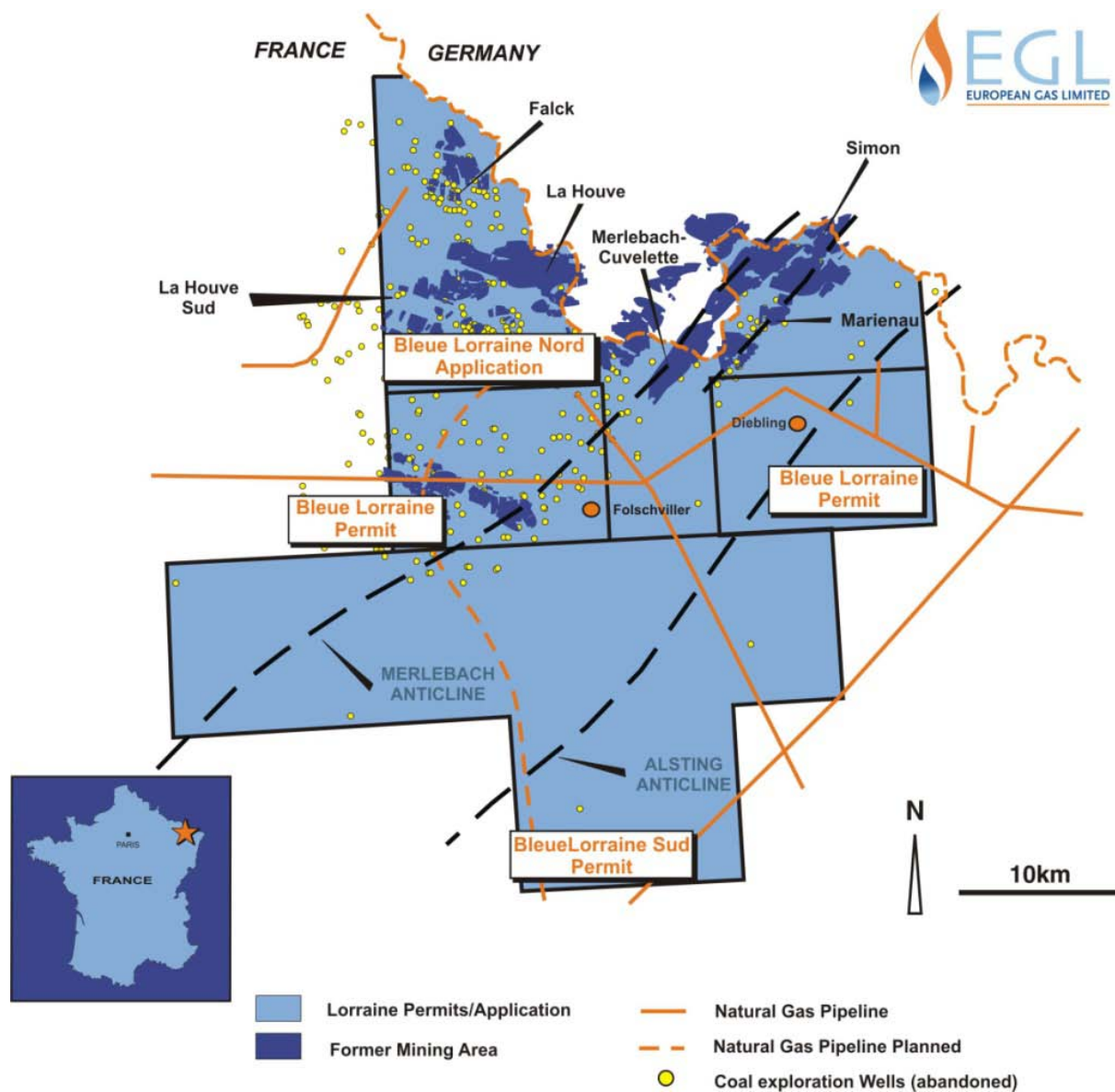


Figure 3: Lorraine Project Location Map

JURA (LONS-LE-SAUNIER)

Central France

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

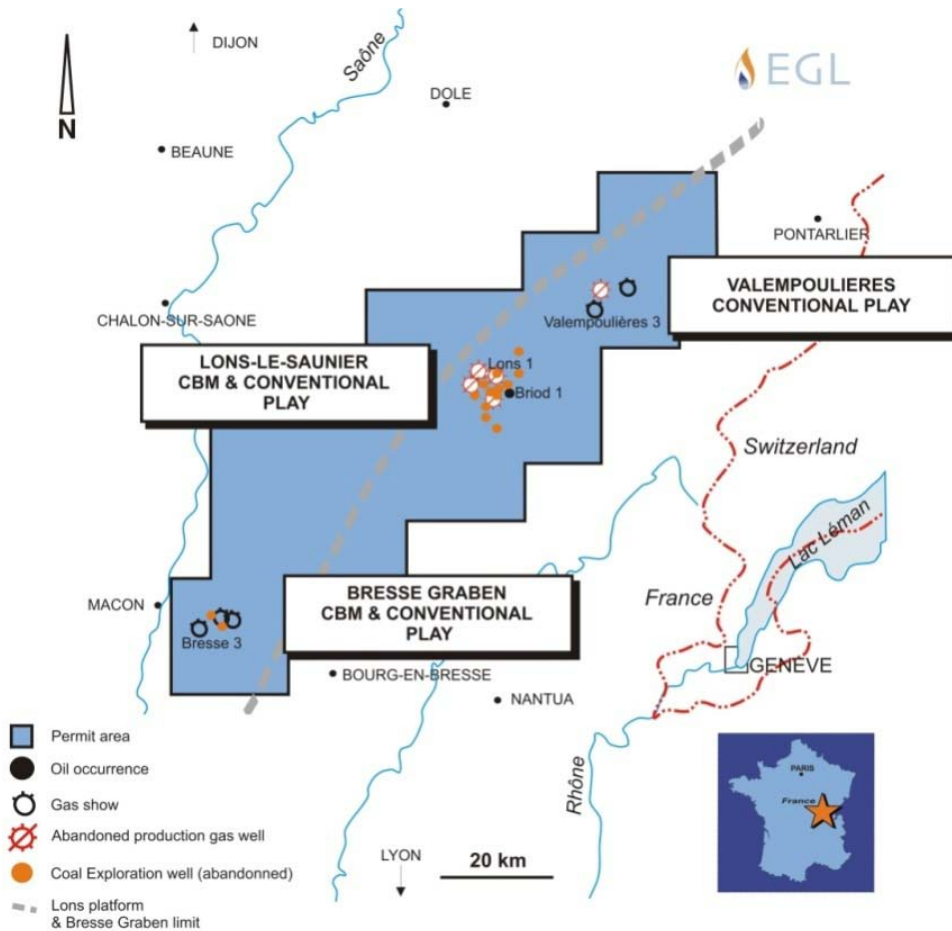


Figure 4: Jura (Lons-le-Saunier) Project Location Map

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.). Re-evaluation of seismic and other data indicates potential for additional conventional gas accumulations as well as potential for gas resources within the previously exploited areas. Exploration options are presently being evaluated.

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.

BENELUX JOINT VENTURE

Belgium

European Gas holds a 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.”).

European Gas Benelux S.A. has applied to the Wallonia Government for a hydrocarbon permit “Hainaut” covering 443 km². The application covers the immediate southern extension of the Wallonia Coal Basin and historical coal mining region. The Basin is the eastern extension of the Nord Pas de Calais Basin in France in which the Company’s Gazonor project is situated. A production permit application has also been submitted for “Anderlues et Peronnes” which covers 40 km².

The target for European Gas Benelux S.A. is both CBM and CMM.

SOUTHERN TUSCANY

Italy

Three permit areas covering a total of 1,553 km² have been granted and preliminary environmental impact studies have been submitted to the Regione Toscana. Initial work will commence upon formal notification that the reports have been accepted.

No work was conducted during the quarter.

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 9 months to 31 March 2011 was €13,326. 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

Convertible Notes

During the quarter the Company announced that it had executed a Restructuring Framework Agreement (“the Agreement”) with Transcor Astra Group (“Transcor”), the holder of the Convertible Notes (“the Notes”) issued in 2007. The effect of the Agreement was to extend the maturity of the Notes to the 31st of March 2011 pending the drawing up and execution of definitive agreements. Key terms of this Agreement were:

- Transfer of ownership of Gazonor SAS to Transcor
- Issue of 22 million shares in the Company to Transcor (15 million shares issued against the notes and 7 million additional shares issued at AUD 50 cents each to extinguish intercompany loans from Gazonor)
- Grant of a 12 month option to Transcor to subscribe for 20 million shares in the Company at 50 cents each

- Grant of a 3 year option for Transcor to acquire for nominal consideration all the Company's shares in the 50/50 European Gas Benelux S.A. joint venture
- Entry into farmin agreements over Gazonor's existing and future exploration permits in Sud Midi and Valenciennois (France). EGL will be the operator and entitled to earn a 70% interest in those permits on completion of the agreed work program
- Entry into farmin agreements to enhance production in Gazonor's Poissonière and Desiree (France) production permits. Gazonor will be the operator and EGL will earn 70% interest in this increased sales gas production revenue (after costs)

All the shares and the option will be subject to a 6 month disposal restriction. Transcor currently holds 5.82m shares in the Company and will hold 27.82 million shares in the Company after the issue of the 22 million shares (representing 10.5% of the Company's then issued ordinary shares).

Shareholder approval for the restructuring of the notes and related transactions was obtained on 28 March 2011.

The Company has subsequently agreed further extensions to the maturity of the convertible notes with the note holder and is now hopeful of completing all definitive agreements and allowing for a recapitalization in May.

Suspension from Trading

On 24 November 2010 the Company asked that ASX suspend trading in its shares pending resolution of the negotiation with the note holder Transcor. The Company acknowledges that it has now been suspended for some time but believes that the suspension is in the best interests of shareholders whilst some uncertainty exists.

The timeframe for the suspension is dependent upon the outcome and finalisation of negotiations.

Conversion of Unsecured Loan

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

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

Resignation of Director

Mr Peter Cockcroft resigned for personal reasons around the end of the quarter.

Mr Cockcroft, who has been on the Board since the 15th of July 2010, will continue to be available to advise the Board as required.

Change in Registered Office

The Company advised that its registered office in Perth Western Australia changed to Suite 8, 7 The Esplanade Mt Pleasant WA 6153.

FINANCIALS APPENDIX 5B

At 31 March 2011, the Company (group) had available funds of approximately €2.01 million (AU\$2.75 million).

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

Outlook

The Company is hopeful of completing the current negotiations regarding the Convertible Notes and moving to capitalise on its extensive and prospective European portfolio.

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 Coal Bed Methane and Coal Mine Methane projects, in particular, in France where the Company with major holdings under licence holds a significant competitive advantage.

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

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

Corporate Office

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

EUROPEAN GAS LIMITED

ABN

75 075 760 655

Quarter ended ("current quarter")

31 March 2011

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter 3 months €'000	Year to date 9 months €'000
1.1	Receipts from product sales and related debtors	1,170	4,608
1.2	Payments for		
	(a) exploration and evaluation	-	-
	(b) development	-	-
	(c) production	(645)	(3,596)
	(d) administration	(1,003)	(2,457)
1.3	Dividends received	347	347
1.4	Interest and other items of a similar nature received	6	30
1.5	Interest and other costs of finance paid	-	(604)
1.6	Taxes paid	(6)	(40)
1.7	Other	-	-
	Net Operating Cash Flows	(131)	(1,712)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	63	78
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Cash assets acquired	-	-
1.12	Other	-	-
	Net investing cash flows	63	78
1.13	Total operating and investing cash flows (carried forward)	(68)	(1,634)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(68)	(1,634)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	2,100
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Convertible notes (refer Note 6)	-	-
1.20	Other	-	-
	Net financing cash flows	-	2,100
	Net increase (decrease) in cash held	(68)	466
1.21	Cash at beginning of quarter/year to date	1,979	1,549
1.22	Exchange rate adjustments to item 1.21	104	-
1.23	Cash at end of quarter	2,015	2,015

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter €'000
1.24	Aggregate amount of payments to the parties included in item 1.2	80
1.25	Aggregate amount of loans to the parties included in item 1.10	

1.26	Explanation necessary for an understanding of the transactions
	Directors remuneration

Non-cash financing and investing activities

2.1	
2.2	

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position. ⁽¹⁾

		Amount available €'000	Amount used €'000
3.1	Loan facilities Yorkville Advisors LLC – Equity Funding Facility (Limit of AUD\$10m undrawn at 31 March 2010)	7,121	-
	High Net Worth Private Investor - AUD\$2.5m	-	1,701
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		€'000
4.1	Exploration and evaluation	750
4.2	Development	-
4.3	Production	-
4.4	Administration	750
	Total	1500

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter €'000	Previous quarter €'000
5.1	Cash on hand and at bank	2,015	1,979
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22) <i>(see note 6)</i>	2,015	1,979

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note 2)	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				
6.2	Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number on issue	Total Number quoted	Issue price per security (see note 3) (AU\$)	Amount paid up per security (see note 3) (AU\$)
7.1	Preference +securities <i>(description)</i>				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	238,944,359	238,944,359	-	-
7.4	Changes during quarter (a) Increases through issues Ordinary shares				
7.5	+Convertible debt securities Tranche A Tranche B <i>(refer to note 6)</i>	14,500 notes 9,750 notes			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Unquoted options Contractor options Director Options	<u>Number</u> 2,000,000 1,500,000 3,000,000 10,000,000	<u>Quoted</u> Nil Nil Nil Nil	<u>Exercise price</u> \$2.50 \$0.35 \$0.50 \$0.70	<u>Expiry date</u> 15/04/2012 31/12/2011 31/12/2012 31/12/2012
7.8	Issued during quarter Director Options	<u>Number</u> 1,500,000 3,000,000 10,000,000	<u>Quoted</u> Nil Nil Nil	<u>Exercise price</u> \$0.35 \$0.50 \$0.70	<u>Expiry date</u> 31/12/2011 31/12/2012 31/12/2012
7.9	Exercised during quarter	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
7.10	Lapsed during quarter Employee / Contractor options	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



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Date 29 April 2011

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB6 Exploration for and Evaluation of Mineral Resources* and *AASB107: Cash Flow Statements* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 **Convertible Notes** – The Convertible Notes are secured with a face value of €1,500, and have a maturity date of 30 April 2011. The notes carry a coupon rate of 5% up until 31 December 2010 and then 7% until the maturity date. The conversion of Tranche A and Tranche B notes is the subject of current negotiation with the note holder, details of which are referred to in the Company's quarterly activities report.

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