

## QUARTERLY REPORT 31 MARCH 2012

### HIGHLIGHTS

#### Corporate and Management

- The Company has been finalising its internal corporate restructuring, so as to gather under its UK subsidiary its various permits and contractual rights over other areas.
- The Company continues, with the assistance of external financial and legal advisors, to evaluate financial alternatives to carry out a significant drilling program in the Lorraine and Nord Pas de Calais regions.

#### Operations

- The testing on the Folschviller-2 well is ongoing. The well is currently producing both gas and water and gas rates are increasing as the de-pressuring continues. The Company will inform on the final results upon completion of the test.
- Comprehensive 3D geological modeling studies have been completed for both the Lorraine and Nord Pas de Calais various prospective areas. These studies have highlighted specific areas where the Company will focus its planned drilling campaigns.
- A major permitting effort has been engaged to secure the well sites identified through the geological modeling exercises, in both the Nord Pas de Calais and Lorraine regions. Environmental, risk, and technical assessments are being conducted in order to prepare the drilling requests to be submitted to the Authorities.
- The French Petroleum Institute (IFP) has been engaged to carry out an audit of the estimation of the gas contingent resources in the Lorraine and Nord Pas de Calais coal basins where the Company holds permits or has contractual rights over certain permits. The IFP has an unmatched knowledge of the geology of these two coal basins and unique technical capabilities and is a historically recognized technical auditor. The firm Netherland Sewell and Associates, Inc. (NSAI) is also carrying out a similar activity on behalf of the Company.

#### New ventures

- The Company continues to pursue a highly prospective unconventional hydrocarbons project in Turkey as part of its diversification strategy. Further information will be provided on this initiative at a later date. Other CBM projects outside of France are also being evaluated and discussions with potential Joint Venture parties are ongoing.

#### Company Information

##### **Board of Directors**

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

##### **Executives**

Frédéric 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:** 41,000,000

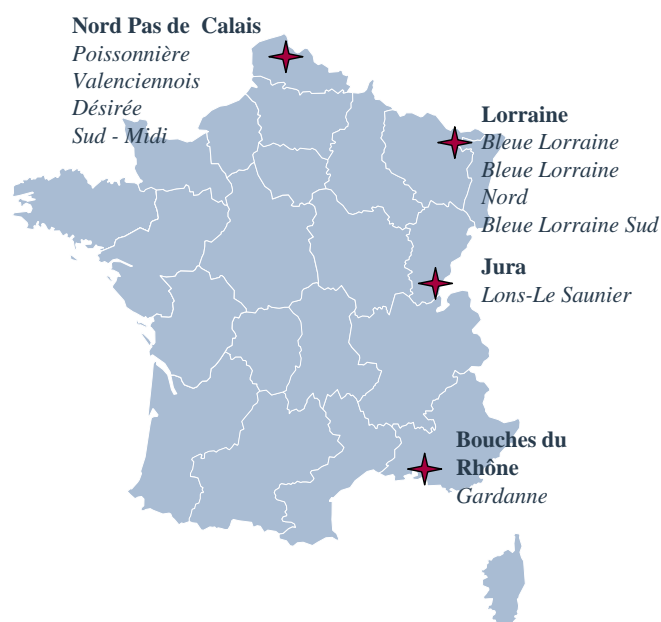


Figure 1 - Location of permits and interest of EGL in France

**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

## LORRAINE

## Eastern France

European Gas holds a 100% interest in two permits, covering 788km<sup>2</sup> 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<sup>2</sup> and is valid up to 30<sup>th</sup> November 2013. The Bleue Lorraine Sud permit was awarded in 2007 and is in the process of being renewed. In addition, the Company has submitted an application for an additional 360km<sup>2</sup> area called Bleue Lorraine Nord.

### Well testing operations

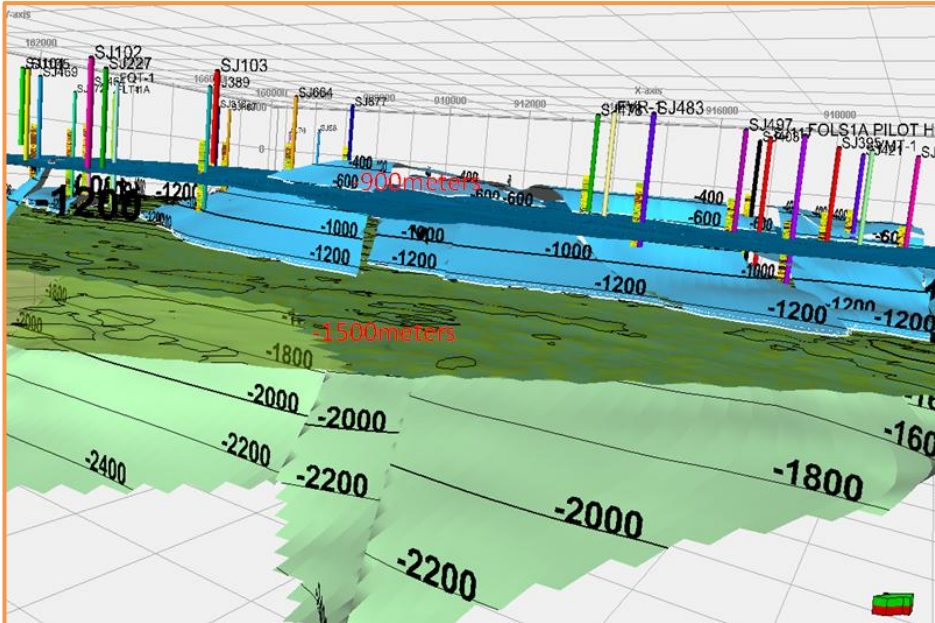
During the month of February 2012, a work-over (Figure 2) was conducted on the Folschviller-2 well to replace a broken rod in the rod string of the progressive cavity pump installed in the well and used to dewater the well. As such, there was an unexpected delay in the schedule of the test. However, the testing of the well has already achieved a number of objectives reported in the semi-annual report of the Company recently published. At the present time, the well is producing both gas and water. The Company will report the final results once the test has been completed to satisfaction.



**Figure 2 - Workover at Folschviller-2 well**

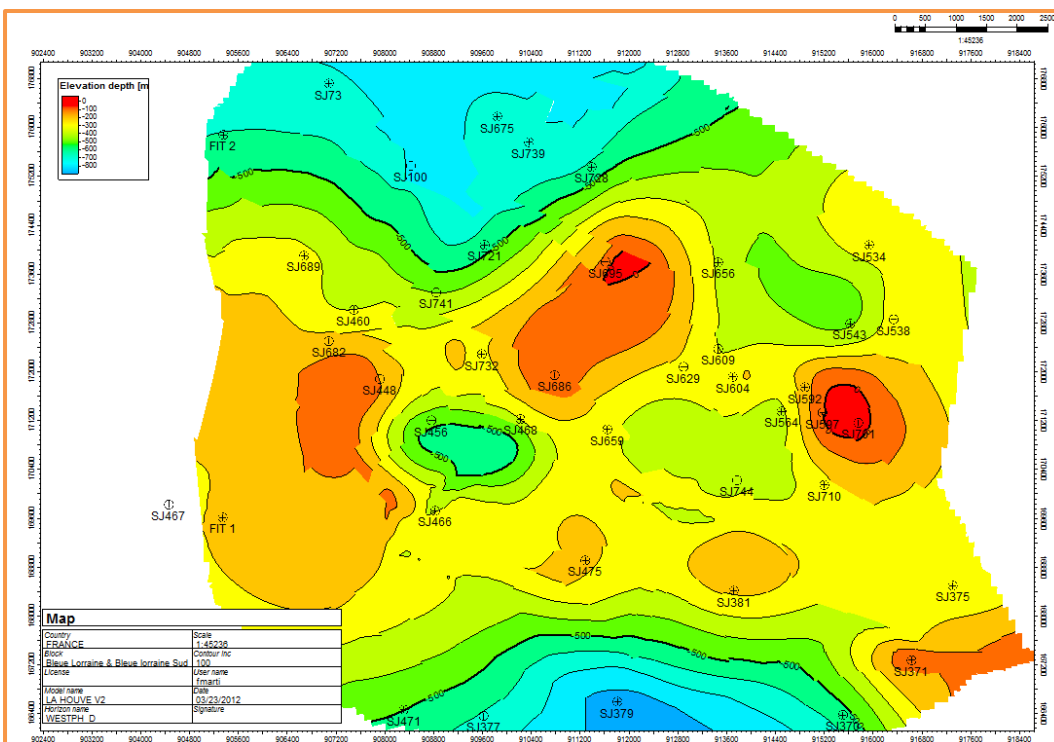
### Geological modelling

The Company has completed 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. The following figures illustrate the four areas that have been modelled in Lorraine. This modelling exercise has led to the identification of several highly prospective drilling locations that the Company is now permitting. The permitting process is a lengthy and complex one that has technical, environmental, risk, and social components.



**Figure 3 - Faulquemont geological area**

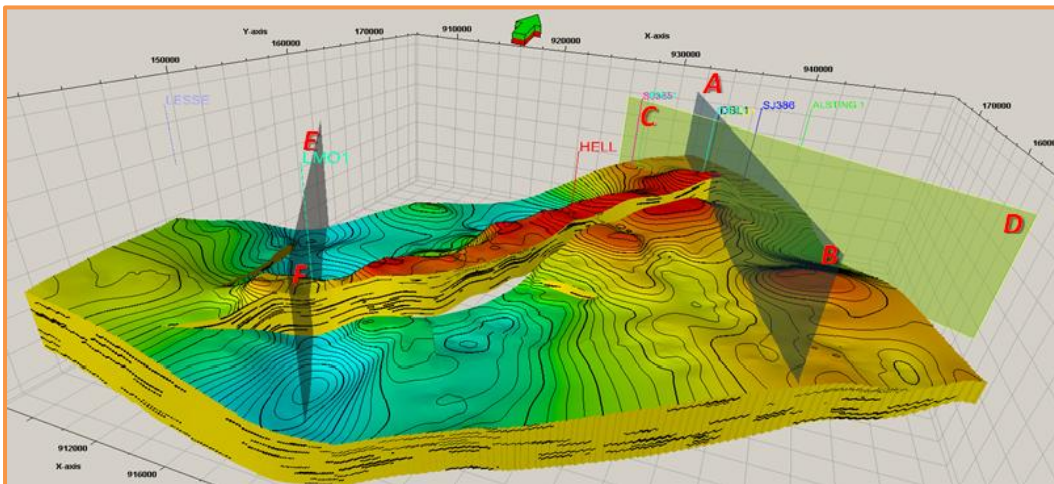
The area of Faulquemont is located at the West of the already explored block of Folschviller, where the Folschviller-2 well is currently being tested. The blocks have been mined in their northern part and subsequently closed in the 1970's. The main feature of this block (Figure 3) is the resource of coal bed methane available between the base of the surface of the Permian at 900 m to 1500 m depth, highlighted on Figure 3. Two blocks for testing have been identified and the Company is currently securing the surface land and conducting the subsequent environmental impact studies on each site.



**Figure 4 - La Houve geological area**

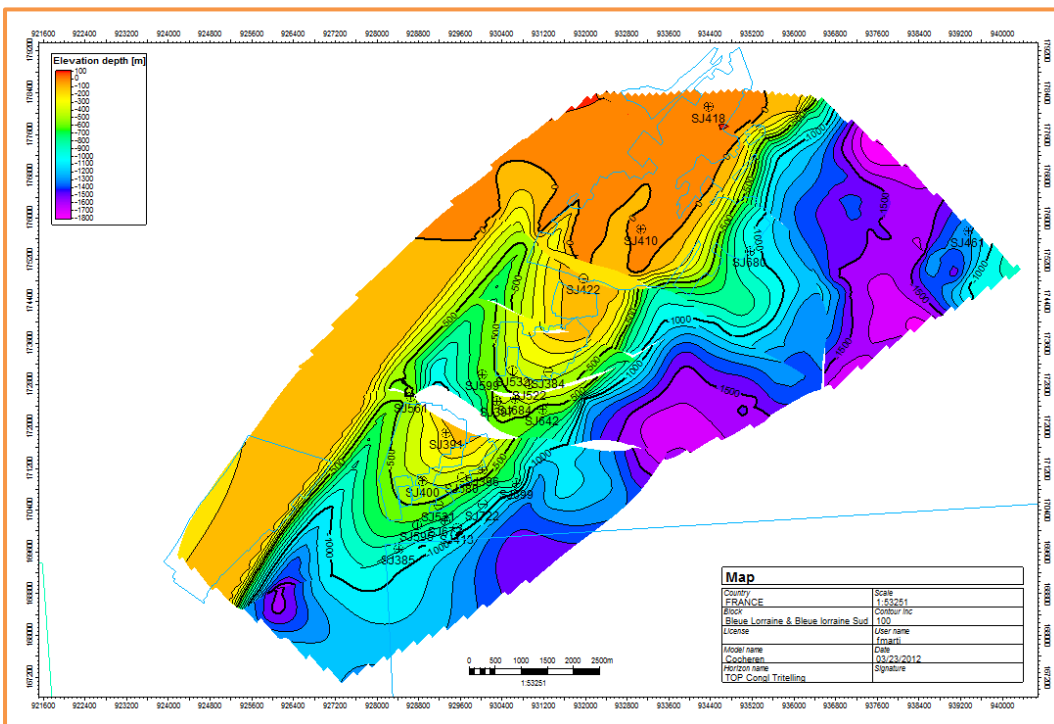
The La Houve model (Figure 4) defines blocks accessible to drilling at shallow depths in the whole Lorraine basin. The model integrates the historical results of the seismic

studies, acquired by the former mining company. A major coal seam with a thickness of 6 meters is currently targeted for future tests.



**Figure 5 – Alsting geological area**

The Alsting model (Figure 5) is a model that covers an area with a length of 25 km across both the Bleue Lorraine and Bleue Lorraine South permits. The exploration campaigns in the North and the South have proved up the occurrence of coal throughout this large structure. Recent seismic interpretation by the Company has led to the definition of two drilling locations that target the flat and shallowest block of the Westphalian anticlinal structure.



**Figure 6 – Cocheren geological area**

The Cocheren area is located close to historically mined areas. Coal exploration has been intensive within the structure and gives control on blocks within surface and a 1500 meter depth. The model incorporates the fault system and the former mining works areas and has led to unexploited coal blocks targets (Figure 6).



## Certification of gas contingent resources for Lorraine

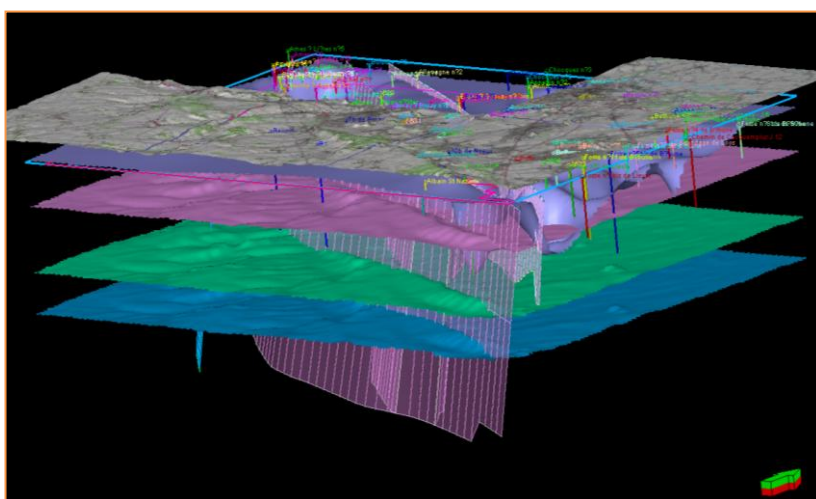
The Company has engaged and has been working over the past several weeks with the French Petroleum Institute, through its consulting affiliate Beicip, to evaluate the gas resources of the permits held in Lorraine. The French Petroleum Institute (IFP) has extensive and unparalleled knowledge of the geology of the coal basins where the Company operates and state-of-the-art technical capabilities. The IFP is a world-class recognized institution that advances technology for the oil and gas industry and is considered as the Expert by many private, governmental, and European organizations. The Company will report the results of this evaluation upon completion, scheduled for the early part of Q2 2012. The Company had previously announced it had engaged Dallas-based Netherland Sewell and Associates (NSAI) to carry out a similar exercise and this work has also been ongoing. The Company intends to become a Western-Europe-based exploration company and as such views the evaluation conducted by the IFP as essential. The work with NSAI is conducted with the purpose of having the flexibility to access the US capital markets where unconventional hydrocarbons are commonplace, the US having a large portion of their gas production coming from coal bed methane and shale gas.

## Nord, Pas de Calais

## Northern France

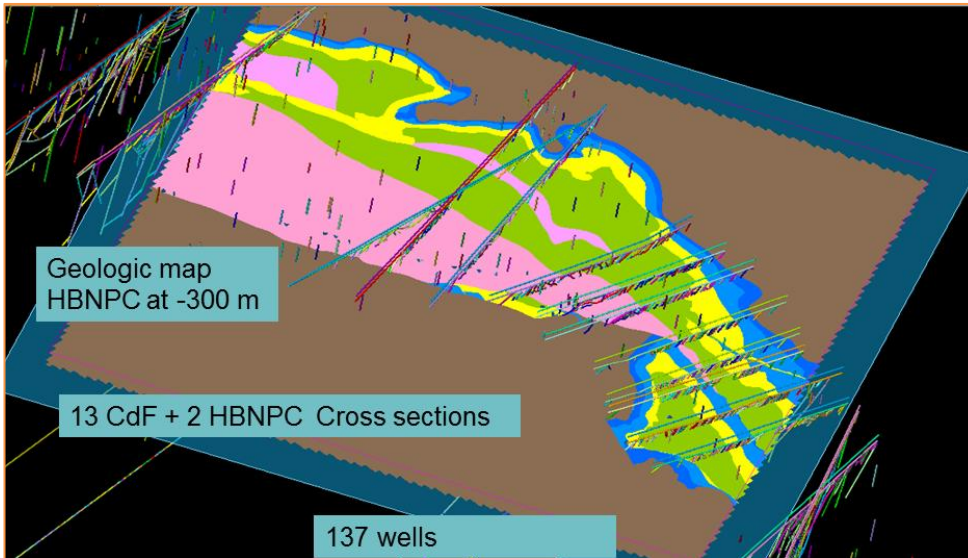
Gazonor holds the gas exploitation rights over the Poissonnière and Désirée production permits situated in the district of Nord-Pas de Calais in northern France, comprising a total area of 767 km<sup>2</sup>. In addition two permits were granted for a total surface of 1,352 km<sup>2</sup> (Valenciennois and Sud Midi) dedicated for exploration of CMIM and CBM. The Company has contractual agreements in place with Gazonor under which it can gain 70% of interest in the permits after meeting certain financial commitments.

The following figures (Figures 7-10) illustrate the completed geological modeling studies pertinent to a specific area of the permits under consideration. At the moment, the permits over the French part of the basin (100km x 30km) have been divided into four main areas which will be modeled individually, the entire prospective area being impractically large to be part of a single model. The goal is to evaluate more accurately the potential of gas associated with this significant basin. It is considered that only 10% of the coal present in this basin has been mined. Thus, a considerable amount of potential CBM coal gas is still in place.



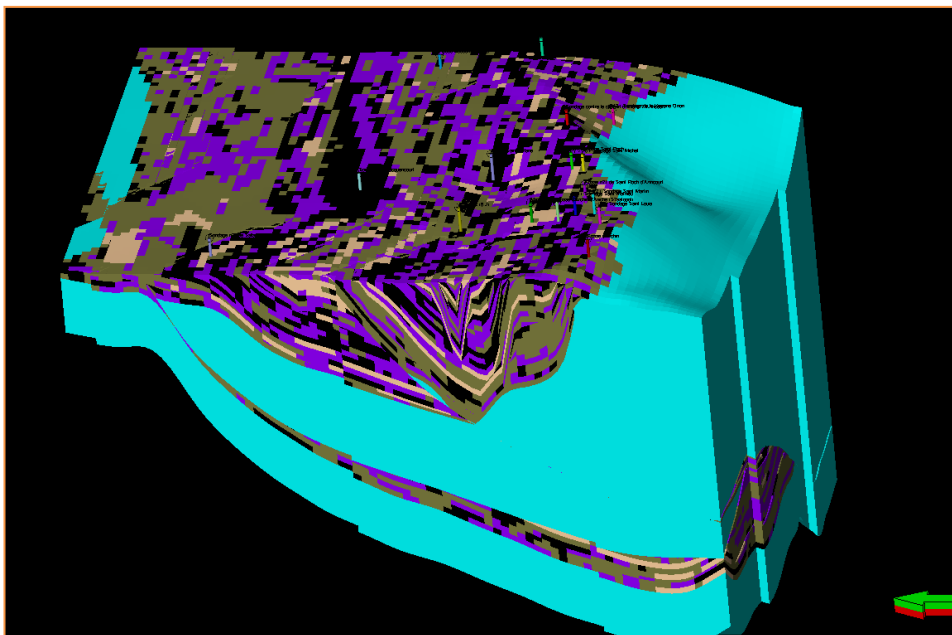
**Figure 7 – Bruay geological area**

Volumes have been calculated from ground level to different overburden depths. The selected depths are 1000m, 1500m and 2000m. The coal volumes that have been historically mined have been removed from the calculated coal volumes.



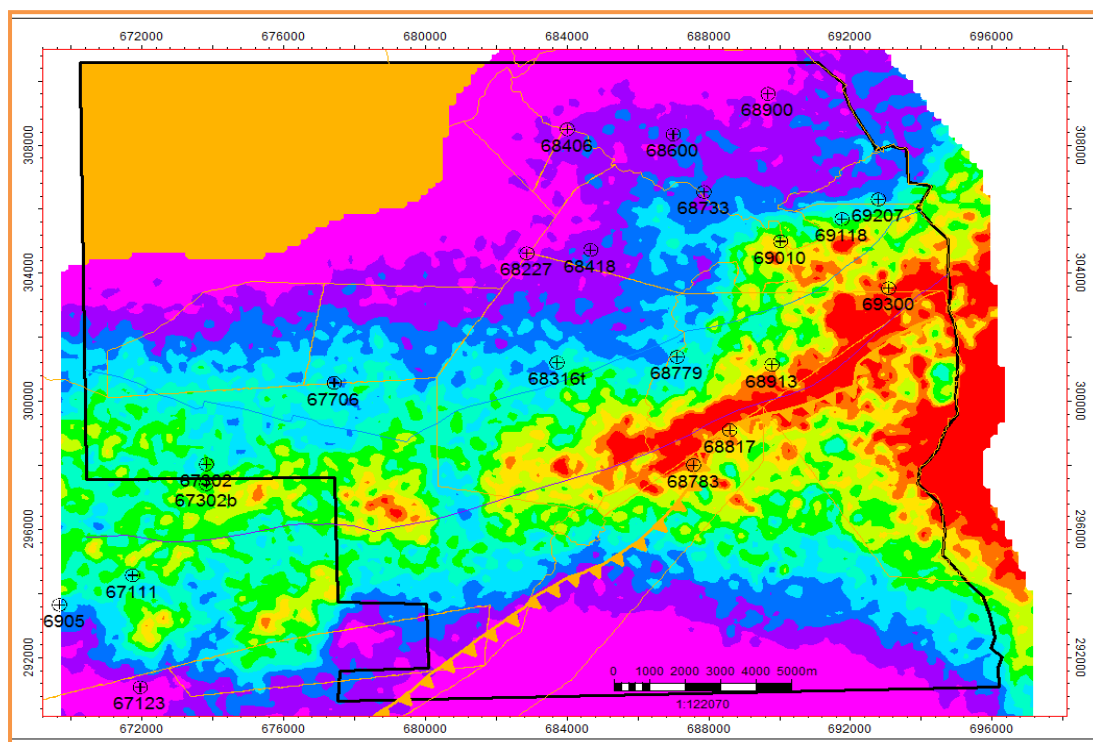
**Figure 8 – Lens geological area**

The model integrates the cross sections and maps coming from “Chabonnages de France”, and all of the available mining drill core (Figure 8).



**Figure 9 – Desiree geological area**

The complexity of the basin with several stacked thrusts has been reproduced in the Company’s geological model in order to accurately calculate the volumes of prospective coals. Geostatistical methods have been used to populate the grid, with anisotropy distributions.



**Figure 10 – Valenciennes geological area**

To define the prospective areas, "gas in place" maps have been created, integrating net coal thicknesses, stratigraphic layers and gas contents associated. The Company has thus identified the most prospective areas and is now focusing its efforts on securing the needed terrains, preparing the administrative files required to solicit an authorization for drilling from the Authorities, and initiating the construction of very detailed localized models to assist in the definition of the drilling program.

#### Certification of gas contingent resources for Nord Pas de Calais

As for the Lorraine region, a similar exercise for the evaluation of the gas resources held in the Gazonor permits in the Nord Pas de Calais region is being conducted with the IFP. The results should be available in the early part of Q2 2012.

## **LONS LE SAUNIER PERMIT**

## **Central Eastern France**

European Gas holds a 100% interest in the Lons le Saunier permit. The Company previously completed a review of the conventional hydrocarbons potential of the permit and is now embarking on the study of its unconventional hydrocarbons potential and the definition of the work program to be followed on this permit. 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.

## **GAZ DE GARDANNE PERMIT**

## **Southern France**

European Gas holds a 100% interest in the "Gaz de Gardanne" 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 while also complying with its exploration commitments.

## NEW VENTURES

An important growth component of EGL is to be found in the carefully selected new ventures that the Company is pursuing in Europe, namely in Belgium, Turkey, and Germany. 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. The Company will inform on any of these initiatives once some milestones have been reached.

## CANNING BASIN

### Western Australia

European Gas holds a Net Well Head Royalty (2% to 3%) over 30,171 km<sup>2</sup> in the Canning Basin, Western Australia. 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. To this respect, the Company is in conversation with Buru Energy to further that matter.

## CORPORATE

The Company has engaged in a number of administrative and corporate activities consistent with its business plan that considers a sizable drilling campaign in both Lorraine and the Nord Pas de Calais.

## FINANCIALS APPENDIX 5B

As at 31 March 2012, the Company had available funds of approximately EUR 6.9 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.

### Corporate Office

2, rue de Metz

Freyming-Merlebach 57800 FRANCE

Tel: +33 3 87 04 32 11

Fax: +33 3 87 93 52 37

E-mail: [info@europeangas.fr](mailto:info@europeangas.fr)

Website: [www.europeangas.fr](http://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](mailto:info@europeangas.com.au)

Website: [www.europeangas.com.au](http://www.europeangas.com.au)