

QUARTERLY REPORT 30 JUNE 2012

This Report covers the Group's activities during the Quarter ended 30 June 2012. Since the end of the Quarter the Company's share buy-back has been completed and regard should be had to ASX announcements made from 1 July 2012 onwards.

HIGHLIGHTS

Corporate and Management

- The Company initiated a Share Buy Back Offer. The Board and the Management of the Company recommended the initiative to shareholders.
- The Company is considering various alternatives to fund a drilling campaign that will convert part of the gas contingent resources that were recently certified into gas reserves.

Operations

- The Company has released on May 1st, 2012, the results of the certification of gas resources carried out by its independent auditors, the French Petroleum Institute (IFP).
- The testing on the Folschviller-2 well has been concluded. The Company has released on May 14th, 2012, the results of the analysis of the data collected during the test; this analysis was also carried out by its independent auditors, the IFP.
- A major permitting effort continues to secure the well sites identified through the geological modeling exercises, in both the Nord Pas de Calais and Lorraine regions. As of June 30th, 2012, eight requests for drilling permits have been submitted to the Regional Authorities.
- Preparation for the upcoming drilling campaign has commenced. Technical design for the wells is ongoing, the objective being to maximize the gas reserves to be certified upon the completion of this drilling and testing campaign. The Company is also working to secure the required services, from drilling to logging to cementing, to identify sources of equipment as well as personnel with the skills needed to execute all required operations.

New ventures

- The Company continues to make progress on the securing of a highly prospective unconventional hydrocarbons project in Turkey. Further information will be provided on this initiative at a later date. Other CBM projects outside of France continue to be evaluated.

Company Information

Board of Directors

Julien Moulin
Rod Bresnehan
Sebastian Hempel

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: 19,000,000

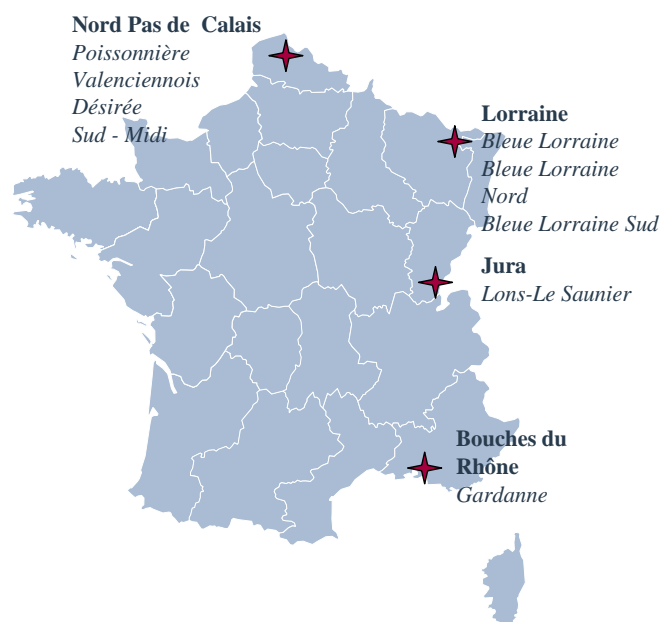


Figure 1 - Location of permits and interest of EGL in France

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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 in the process of being renewed. In addition, the Company has submitted an application for an additional 360km² area called Bleue Lorraine Nord.

Gas resources certification

The French Petroleum Institute (IFP) was contracted to carry out an independent gas resources certification of the gas resources in the Lorraine permits associated with the Company. The results are presented in the table below and highlight the very large potential of the Lorraine areas where the Company operates or will operate.

Lorraine Contingent Resources (BCF)	1C	2C	3C
Bleue Lorraine	2,657	3,165	3,691
Bleue Lorraine Sud	212	343	529
Bleue Lorraine Nord	930	1052	1167
Total	3,799	4,560	5,387

The IFP also certified prospective gas resources that are outlined in the table below. These prospective resources correspond to areas where coals have been identified by previous wells but for which gas content data were not available, as well as areas where limited well control was available.

Lorraine Prospective Resources	Low	Best	High
Bleue Lorraine	674	854	1049
Bleue Lorraine Sud	2,892	4,061	5,515
Bleue Lorraine Nord	254	346	453
Total	3,820	5,261	7,017

The 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

Well testing operations

The well testing operations in the Folschviller-2 well have been concluded. The Company considers that the test was successful in establishing the following results:

1. The achieved gas rates, when scaled to the length of coal that will be contacted in a full appraisal well, lead to economical CBM development projects.
2. The produced gas is of very high quality, with over 96% of methane and no H₂S.
3. The Lorraine coals can be effectively dewatered.
4. The produced water is very fresh with no contaminants, and will thus not create an environmental issue or operating expense to be disposed of.

The IFP has analysed the collected data. The pressure data obtained during the dewatering phase was interpreted and a reliable estimate of the most important coal parameter called permeability was derived, in the order of one millidarcy.

The two-phase flow pressure and rate data during the simultaneous flow of water and gas were also analysed by the IFP with the help of a 3D dynamic reservoir simulator. This analysis showed that a lateral drain with a length of 1,000 metres in the coals can achieve a gas rate superior to 300 MCFPD (thousand cubic feet per day).

The IFP then conducted upon request from the Company an economic evaluation of a field development plan proposed by the Company. The IFP used its own gas and water flow profiles and its own estimated of capital and operating expenditures to conduct the requested economic evaluation. This exercise concluded that the proposed CBM field development plan was economical.

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 km². In addition two permits were granted for a total surface of 1,352 km² (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.

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 has been conducted with the IFP. The results are presented in the table below. These results are net to EGL, they represent the 70% interest that the Company is entitled to receive after meeting certain financial commitments.

NPC Net Contingent resources Gazonor	1C	2C	3C
Poissoniere	674	1,004	1,459
Desiree	80	113	157
Valenciennois	6	35	92
Sud Midi	61	176	361
Total	821	1,327	2,069

During the certification exercise, no prospective gas resources were identified for the Nord Pas de Calais region.

LONS LE SAUNIER PERMIT

Central Eastern France

European Gas holds a 100% interest in the Lons le Saunier permit. The Company previously completed an exercise of reviewing 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. The Company has filed for the renewal of this permit which first exploration phase will expire in July 2012.

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. The first phase of this exploration permit will expire in November 2012 and the Company is currently preparing its application for renewal.

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.

AUSTRALIAN OPERATIONS

Canning Basin Western Australia

The Company holds royalty interests in 12 tenements in the Canning Superbasin.

EP 391, EP 431, EP 436 (2% WHV Royalty on 100% participation interest)

During the Quarter, negotiations commenced with Buru regarding adding Diamond Resources (Fitzroy) Pty Ltd (‘DRF’, a wholly owned subsidiary of Mitsubishi Corporation) as a covenanting party under the 26 August 2006 Royalty Deed in favour of the Company. Following Ministerial approval in late February 2012, these 3 Permits are held 50% by Buru and 50% by DRF. Negotiations were continuing at the end of the Quarter.

EP 371, EP 390, EP 428 (2% WHV Royalty on 100% participation interest)

During the Quarter, negotiations commenced with Buru regarding adding Diamond Resources (Canning) Pty Ltd (‘DRC’, a wholly owned subsidiary of Mitsubishi Corporation) as a covenanting party under the 26 August 2006 Royalty Deed in favour of the Company. Following Ministerial approval in late February 2012, these 3 Permits are held 50% by Buru and 50% by DRC. Negotiations were continuing at the end of the Quarter.

EP 371 (2% WHV Royalty on 100% participation interest)

In early June 2012 Buru announced the commencement of an extended production test on the Ungani discovery. The first payment of a royalty under the 26 August 2006 Royalty Deed is possible during the next Quarter.

EP 431 (2% WHV Royalty on 100% participation interest)

On 15 May 2012 a Deed of Indemnity was entered into which has the effect of Buru Energy Ltd (‘Buru’) indemnifying the Company against any liability or loss in connection with a Native Title and Heritage Protection Agreement relating to EP 431 (‘Heritage Agreement’) and for the period since 26 August

2006. The Heritage Agreement (relating to the Ngurrara native title holders) dates from July 2003 and primary negotiations with the Kimberly Land Council Aboriginal Corporation concerning it and exploration on EP 431 have been assumed by Buru. Since 26 August 2006, Arc Energy Pty Ltd ('Arc') has covenanted with the Company to be bound by and be entitled to all the provisions of the Heritage Agreement in the place of EGL. Arc transferred EP 431 to Buru on 25 August 2008. EP 431 is now 50% owned by DRF.

EP 428, EP 436 (2% WHV Royalty on 100% participation interest)

Negotiations continued during the Quarter which among other things will remove the Company from the contractual matrix in connection with any obligation (dating back to March 2004) to make certain 'Discovery Payments' to certain third parties in the event of hydrocarbon discoveries on EP 428 and EP 436 which are proven to be commercial and with an initial production of over 260 BOEPD. Since June 2006, Arc has agreed with the Company to assume the obligation to make any Discovery Payments to the third parties and to indemnify the Company in that regard. It is proposed that Buru, DRC and/or DRF will assume all the ongoing obligations to make any Discovery Payments.

Retention Lease R1 and EP 104 (2% WHV Royalty on 8% participation interest)

The Company notes that Petroleum Retention Lease R1 was renewed by the Minister of Mines and Petroleum of Western Australia for a period of five years from 8 November 2010. The Company notes the purchase by Key Petroleum Ltd of Gulliver Productions Pty Ltd in late 2011. The Company continues to monitor activities by the EP104 and R1 joint venture participants. The Company's 8% participating interest in EP 104 and R1 was sold together with various other Canning Basin Assets to Arc in 2006.

Production Licence L15 (2% WHV Royalty on 12% participation interest)

During the Quarter the Company progressed (with Buru) getting its royalty interest formally registered against the title to this Production Licence which was granted in respect of former application PLA L98-1. The Company's 12% participating interest in the L98-1 application was sold together with various other Canning Basin Assets to Arc in 2006. L15 runs for 15 years from 1 April 2010. The Company continues to monitor activities by the L15 joint venture participants. It is possible that the L15 joint venture may restore oil production from West Kora-1 (a workover programme is understood to be in planning). The Company notes the purchase by Key Petroleum Ltd of Gulliver Productions Pty Ltd in late 2011.

Royalty (3% of WHV) over EP129 and L6 and L8

Blina oil field royalties continued to be received by the Company from Buru during the Quarter. Payments received from Buru for the full financial year totaled Euro 20,362. The Company understands that Mitsubishi Corporation holds an option granted by Buru to take an interest in the 3 Permits (EP129, L6 and L8) that are covered by the Company's Royalty Deed dated 5 September 2006.

The Company is monitoring the activities on the Backreef Area of L6 and EP129.

CORPORATE

The Company in Europe 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 as well as a share buyback project and re-domiciliation exercise that should facilitate the access of the Group to European capital markets.

Agreements with EGL UK

During May 2012 and in anticipation of the Company's buy-back of shares resulting in EGL UK ceasing to be a subsidiary of the Company, various agreements with EGL UK were entered into to give effect to a financial and operational separation as between the Company's European operations and the Company's Australian operations as disclosed in the Company's prospectus dated 4 June 2012 and the Explanatory Memorandum for the EGM held on 17 July 2012. The current cash position of the Australian listed Company is approximately \$ 750,000.

During the Quarter (on 1 May 2012) the Company entered into a Deed of Indemnity with EGL UK in relation to its contractual obligations under 3 Agreements relating to permits in Northern France. The Deed of Indemnity is more fully described on pages 10 and 11 of the Company's prospectus dated 4 June 2012.

FINANCIALS APPENDIX 5B

As at 30 June 2012, the Group had available funds of approximately EUR 5.3 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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