

ANNUAL REPORT 2012



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DIRECTORS

Mr Julien Moulin
BA (Hons), Masters Asset Management (Hons)
(Non-Executive Chairman)

Mr (John) Sebastian Hempel
BSc LLB ACIS
(Executive Director)

Mr Rod Bresnehan
BSc, App Chem
(Non-Executive Director)

SECRETARY

Mr Mark Pitts
BBus FCA

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DIRECTORS' REPORT

The directors of European Gas Limited ("the Company") present the following report on the Company and its controlled entities for the financial year ended 30 June 2012.

1. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were:

- Exploring for unconventional hydrocarbons on the consolidated entity's significant assets in France.
- Investigation of other opportunities for unconventional hydrocarbons exploration in and near Europe.
- In anticipation of the Company's significant buy-back of shares resulting in the Company ceasing to have any subsidiaries, entering into various agreements with the European controlled entities 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.
- Production testing in Lorraine.
- Preparation for and conduct of the Company's buy-back of shares that completed after the end of the financial year.

2. REVIEW OF OPERATIONS

2.1 Corporate

During the year ended 30 June 2012 the Group commenced an internal restructuring process which was designed to centre the Group's European assets under UK Subsidiary European Gas Limited ("EGL UK").

The restructuring of the Group has been implemented through a combination of the following:

- i. the sale of 100% of Heritage Petroleum Limited's share capital to EGL UK for €1;
- ii. the sale of 100% of European Gas S.A.S.'s share capital to EGL UK for €4,000,000;
- iii. assignment of the farmout and joint operating agreements between European Gas Limited and Gazonor in respect of the Sud Midi and Valenciennois exploration permits to EGL UK;
- iv. assignment of the production sharing agreement with Gazonor in respect of the Poissonniere and Desiree production permits to EGL UK;
- v. assignment of €11,140,836 of the intercompany debt due to European Gas Limited from EGL UK to European Gas S.A.S. as repayment of the debt owed by European Gas Limited to European Gas S.A.S.;
- vi. waiver and forgiveness of the total intercompany debt due to European Gas Limited from EGL UK;
- vii. sub-division of the £1 ordinary share capital in EGL UK into 297,272,505 ordinary shares of £0.00000004 each; and
- viii. the implementation of a Share Buy-back offer by the Company as announced on the ASX on 4 June 2012. Under the Offer the Company proposed to buy back up to 100% of the ordinary shares held in the capital of the Company by each shareholder of the Company who was eligible to participate in the Offer. For each share bought back, 1 ordinary share in EGL UK was offered as consideration.

Shareholder approval for the Buy-back Offer was obtained on 17 July 2012 and the buy-back was subsequently completed on 26 July 2012. Pursuant to the buy-back the Company bought back and cancelled 221,615,657 of its own ordinary shares and as a result on 26 July 2012 only holds 25.45% interest in the ordinary share capital of EGL UK.

2.2 Operations

AUSTRALIAN OPERATIONS **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 which cover 12 tenements and activities during the year centered on firming up the Company's interest in these royalties.

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

During the quarter ended 30 June 2012, 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 30 June financial year.

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

During the quarter ended 30 June 2012, 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 30 June financial year.

EP 391 (2% 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 was received subsequent to the year end.

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

On 15 May 2012 a Deed of Indemnity was entered into which has the effect of 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% Royalty on 100% participation interest)

Negotiations continued during the year 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% 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.

DIRECTORS' REPORT

Production Licence L15 (2% 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 work-over 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% Net Royalty) 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.

EUROPEAN OPERATIONS **Northern, Eastern, Southern and Central France and New Ventures**

The Company's European subsidiaries 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.

The share buy-back project and other corporate exercises as mentioned elsewhere in these financial statements were designed to facilitate the access of the Group to European capital markets and thereby create shareholder wealth.

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 following is a brief summary of significant exploration and operational highlights from the Company's European operations:

- On May 1st, 2012 the Company released 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 were concluded. On May 14th, 2012 the Company released 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 are ongoing, the objective being to maximize the gas reserves to be certified upon the completion of the 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.

An important growth component of the European operations are to be found in the carefully selected new ventures that are being pursued 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.

3. OPERATING RESULTS

The consolidated loss of the consolidated entity after providing for income tax amounted to €7,448,009 (2011: €651,243).

4. DIVIDENDS

No dividend has been paid by the Company during the financial year ended 30 June 2012, nor have the directors recommended that any dividends be paid.

5. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events have occurred between the reporting date and the date of this financial report:

On 26 July 2012 European Gas Limited completed the implementation of a Share Buy-back offer that was announced on 4 June 2012. Under the Offer the Company proposed to buy back up to 100% of the ordinary shares held in the capital of the Company by each shareholder of the Company who was eligible to participate in the Offer. For each share bought back, 1 ordinary share in EGL UK was offered as consideration.

Shareholder approval for the Buy-back Offer was obtained on 17 July 2012 and the buy-back was subsequently completed on 26 July 2012. Pursuant to the buy-back European Gas Limited bought back and cancelled 221,615,657 of its own ordinary shares and as a result on 26 July 2012 it only holds a 25.45% interest in the ordinary share capital of EGL UK.

Other than the above event there were no significant events that have occurred between the reporting date and the date of this financial report.

6. LIKELY DEVELOPMENTS

The consolidated entity will continue to pursue policies which seek to improve shareholder value during the next financial year. At the Company level this includes a focus on reducing operating costs.

Likely developments and expected results of the operations of the consolidated entity in subsequent years are not discussed further in this report. In the opinion of the directors, further information on those matters could prejudice the interests of the Company and the consolidated entity because it may relate to matters which are currently under negotiation and premature disclosure could breach commercial confidentiality.

7. REMUNERATION REPORT

The remuneration report is set out on pages 9 to 13 and forms part of the Directors' Report for the financial year ended 30 June 2012.

8. SAFETY

The company carries out its operations under strict industry safety standards and according to its own approved safety manual and safety systems. During the year there were no on site safety concerns or lost time injuries.

9. ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The exploration permits in France, in which the company has an interest, all carry strict environmental regulations governing activities in the field. To date, as far as the directors are aware, there have been no breaches of the license conditions.

DIRECTORS' REPORT

10. DIRECTORS

The names of directors in office at any time during or since the end of the financial year:

Name and qualification	Experience
Mr Julien Moulin Chairman (appointed 01 September 2009)	Mr. Moulin is co-Founder of Maoming Investment Manager Ltd, an investment management company investing globally in listed and unlisted companies with a significant focus on China and resource companies. He previously was an investment manager at Barclays, UBS Global Asset Management and SKI Capital in London. Mr. Moulin has previously served on the board of several listed and unlisted companies.
Mr Rod Bresnehan Non-executive Director (appointed 01 September 2009)	Mr Bresnehan has 36 years of experience in the oil and gas industry in both upstream resources and reserves development; and in downstream commercial and marketing areas, with specific recent emphasis on coal bed methane projects. He has held positions at Santos Limited and Oil Company of Australia (Origin Energy). Mr Bresnehan is currently Chairman of the Australian Council of the Society of Petroleum Engineers and a director of Clean Energy Australasia and Energy Resources Development.
Mr (John) Sebastian Hempel BSc LLB ACIS Executive Director since 1 Aug 2012 (appointed 01 September 2009)	Mr Hempel is a corporate lawyer and a chartered secretary with over 20 years corporate advisory experience with ASX listed companies and in the resources sector. He has previously held positions at Minter Ellison, Macquarie Bank Limited and the Australian Securities Exchange. Mr Hempel also holds directorships with Prosperity Resources Ltd, Conchita Nominees Pty Ltd and The Armidale School

The following persons held executive positions during or since the end of the financial year:

Name and qualification	Experience
Mr. Frederic Briens Chief Executive Officer (appointed 25 Aug 2011)	Mr. Briens is a Petroleum Engineer with over twenty five years of operating and experience Mr. Briens previously held the positions of Chief Strategy Officer and Chief Operating Officer of BPZ Resources (NYSE: BPZ), a company that became public in 2004 and was trading in the New York Stock Exchange by 2009. Mr. Briens personally directed on the ground all operations from 2005 to 2009, drilling in particular two successful exploration wells and bringing two fields into production in a matter of months. From 2002 through 2004, Mr. Briens served as Geosciences and Business Development Manager for Perenco Venezuela S.A. From 1999 to 2002, Mr. Briens was the Chief Reservoir Engineer for Lundin Petroleum in Switzerland.
Mr. Johannes Niemetz Chief Operating Officer (appointed 15 July 2011)	Mr. Niemetz formerly worked at General Electric within its Infrastructure Unit on, inter alia, the integration of Gas Engine manufacturer Jenbacher, and subsequently within GE Oil and Gas, assessing global M&A opportunities and working on financial planning and analysis. Since 2006, Mr. Niemetz worked as a Principal at Strata Partners, an independent European investment banking firm in London where he acted on numerous public and private cross-border M&A deals as well as placements in the technology and energy sectors.
Mr. Mark Pitts FCA Company Secretary	Mr Pitts is a Chartered Accountant with over twenty five years' experience in statutory reporting and business administration in Australia and internationally. He has been directly involved with, and consulted to a number of public companies holding senior financial management positions. Mr Pitts is a Partner in the advisory firm Endeavour Corporate (Endeavour).

11. MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the company during the year are:

	Board Meetings	
	A	B
Julien Moulin	10	10
Rod Bresnehan	10	10
Sebastian Hempel	10	10

Notes

A - number of meetings attended.

B - number of meetings held during the time the director held office during the year or was a member of the relevant committee.

12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums for a standard Directors and Officers Liability and Company Reimbursement Policy. The details of the policy remain confidential between the insurer and the company.

13. DIRECTORS INTERESTS

The relevant interest of each director in the shares or options over shares of the company and any other related body corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary shares	Options over ordinary shares
Julien Moulin	-	6,000,000
Rod Bresnehan	46,950	-
Sebastian Hempel	21,000	-

14. OPTIONS

At the date of this report, the un-issued ordinary shares of European Gas Limited under option are as follows:

Option Plans	Grant Date	Number under Option	Exercise Price	Expiry Date
Director Options	31 Dec 2010	3,000,000	\$0.50	31 Dec 2012
	31 Dec 2010	10,000,000	\$0.70	31 Dec 2012
	29 Nov 2011	6,000,000	\$0.50	31 Dec 2012
Total		19,000,000		

Further details concerning the company's share option incentive plans are set out in note 14 to the financial statements accompanying this report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

15. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of a Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

16. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, all significant changes in the state of affairs of the consolidated entity, which occurred during the year under review, are disclosed in this report or the financial statements.

Going forward the company will operate as the holder of an investment in EGL (United Kingdom) and also continue to earn royalty income from Buru.

Other than as stated elsewhere in this report, there has not arisen in the interval between the end of the financial year and the date of this report any matter, circumstance or event of a material or unusual nature likely in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

17. NON-AUDIT SERVICES

During the year Deloitte Touche Tohmatsu the company's auditors, did not perform any services in addition to their statutory duties.

18. ROUNDING OFF

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

19. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 14 and forms part of the directors' report for the year ended 30 June 2012.

Signed in accordance with a resolution of the Board of Directors



Sebastian Hempel – Director

Dated at Perth, Western Australia this 28th day of September 2012

REMUNERATION POLICY

Overview of remuneration policy

This report details the nature and amount of remuneration for each director of European Gas Limited and for the executives receiving the highest remuneration. Remuneration levels for directors, company secretary, senior managers of the company and relevant group executives of the consolidated entity ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the directors and senior executives ability to control the relevant segments performance;
- the consolidated entity's performance including:
 - the consolidated entity's operational and financial performance;
 - the scale and complexity of operations;
 - the growth in share price and returns on shareholder wealth; and
- the amount of incentives within each directors and senior executive's remuneration.

Remuneration packages comprise fixed remuneration and long-term performance-based incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board through a process that considers individual, segment (if applicable) and overall performance of the consolidated entity. The Board has regard to remuneration levels external to the group to ensure the director's and senior executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

Performance linked remuneration

Performance linked remuneration is represented by long-term incentives in the form of options and provide a means by which the company can reward and provide performance based incentive to its directors. In the company's early stages of development it is considered appropriate that the company provide incentive options as a cost effective and efficient way of providing incentive to directors and other executives.

Details of outstanding options are provided in section 14 of the director's report. Any grant of options to directors requires prior shareholder approval.

At the General Meeting in March 2011 shareholders "refreshed" the approval of the European Gas Limited Employee Share Option Plan the ("Incentive Plan"). The purpose of the Incentive Plan is to provide selected directors, employees and consultants of the company (and its subsidiaries) with the means of receiving options to subscribe for shares in the company. The intention is to give these people the opportunity to share in the future growth and profitability of the company by aligning their interests with those of shareholders. This is expected to motivate them to have a greater involvement with and commitment to the company, and to focus on the longer term goals of the company.

REMUNERATION REPORT

REMUNERATION REPORT (CONT'D)

Consequence of performance on shareholder wealth

In considering the consolidated entity's performance and benefits for shareholders wealth the board has regard to the following indices in respect of the current financial year and the previous financial period.

Indices	2012	2011	2010	2009	2008
Net profit (loss) € '000	(7,477)	652	(7,216)	(5,545)	(3,757)
Earnings/(loss) per share (€ cents per share)	(2.54)	0.27	(3.44)	(2.78)	(1.89)
Dividends paid (€ cents per share)	Nil	Nil	Nil	Nil	Nil
Share price at the beginning of the year	38.50	16.50	10.50	66.00	96.00
Share price at the end of the year	13.50	38.50	16.50	10.50	66.00
Change in share price – increase/(decrease) (AU\$ cents per share)	(25.0)	22.0	6.0	(55.5)	(30.0)
Return of capital	Nil	Nil	Nil	Nil	Nil
Market capitalisation (undiluted) at 30 June € '000	33,614	83,697	29,862	16,035	84,377

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long term creation of shareholder wealth, the Board has had regard for the stage of development of the company's business and given consideration to each of the indices outlined above. In view of the nature of the company's activities and the relatively early stage of development the market capitalisation of the company is likely to be the most representative measure of the impact of the company's remuneration policies on shareholder wealth.

Service agreements

In June 2011 the Company entered into an agreement with Mr Julien Moulin to remain with the Company as Executive Chairman and Chief Executive Officer.

The agreement between Julien Moulin and European Gas has the following key terms:

- remuneration comprises an annual base salary of € 150,000 per annum;
- the company also pay premium of up to € 5,000 per annum for insurance policy for Mr Moulin and his partner Aline Conus combined;
- normal statutory employee entitlements will accrue; and
- the engagement may be terminated on three (3) months' notice by either the Company or Mr Moulin, for other than termination due to misconduct.

Subsequent to the year end this service agreement was assigned to EGL (UK) Limited.

In July 2011 the company entered into an agreement with Mr Johannes Niemetz to join the Company as Chief Operating Officer (COO).

The agreement between Johannes Niemetz and European Gas has the following key terms:

- remuneration comprises an annual base salary of US\$100,000 per annum;
- annual base salary is inclusive of statutory superannuation (in accordance with UK Law);
- normal statutory employee entitlements will accrue; and
- the engagement may be terminated on three (3) months' notice by either the Company or Mr Niemetz, for other than termination due to misconduct.

Subsequent to the year end this service agreement was assigned to EGL (UK) Limited.

In August 2011 the company entered into an agreement with Mr Frederic Briens to join the Company as Chief Executive Officer (CEO).

The agreement between Frederic Briens and European Gas has the following key terms:

- remuneration comprises an annual base salary of €200,000 per annum;
- annual base salary is inclusive of statutory superannuation (in accordance with Australian Law);
- normal statutory employee entitlements will accrue; and
- the engagement may be terminated on three (3) months' notice by either the Company or Mr Briens, for other than termination due to misconduct.

Subsequent to the year end this service agreement was assigned to EGL (UK) Limited.

EGL UK assumed responsibility for employment costs for the above 3 executives in May 2012.

In March 2011 the Company entered into a service agreement with Endeavour Corporate Pty Ltd, a company in which the company secretary, Mr. Mark Pitts has an interest. The contract is for no fixed term and fees payable are based on market rates for these types of services and are payable on a monthly basis for the duration of the contract. Either party may terminate the agreement on 1 months' notice at any time.

Non-executive directors

Non-executive directors receive fees determined by the Board, but within the aggregate limit of \$300,000 as approved by shareholders in 2006. These fees were reduced with effect from 1 July 2012 to \$11,000 per director per quarter (inclusive of superannuation and similar on-costs).

Directors & Executives Disclosures

Remuneration of directors and executives by the consolidated entity during the financial year

Directors and Key Management Personnel

Julien Moulin	Chairman
Rod Bresnehan	Non-executive Director
Sebastian Hempel	Non-executive Director

Company Executives (as defined by section 300A (1b) (a))

Frederic Briens	Chief Executive Officer (appointed 25 August 2011)
Johannes Niemetz	Chief Operating Officer (appointed 15 July 2011)
Mark Pitts	Company Secretary

REMUNERATION REPORT

Remuneration of specified directors and specified executives by the consolidated entity

The following table provides details of all directors of the company (also key management personnel) and other company executives and the nature and amount of the elements of their remuneration for the year ended 30 June 2012.

	Year	Salary & fees	Other	Short term benefits			Total	Proportion of remuneration related %	Value of Options as a proportion of remuneration %
				Share based payments	Post-employment	Termination Benefits			
		€	€	€	€	€			
Directors									
Julien Moulin (appointed 01/09/09)	2012	203,818	-	244,417	-	-	448,235	-	55%
	2011	51,361	299,880(**)	-	-	-	351,241	-	-
Rodney Bresnehan (appointed 01/09/09)	2012	46,554	-	-	4,190	-	50,744	-	-
	2011	44,211	80,278(**)	-	11,203	-	135,692	-	-
Sebastian Hempel (appointed 01/09/09)	2012	46,554	-	-	4,190	-	50,744	-	-
	2011	44,211	80,278(**)	-	11,203	-	135,692	-	-
Peter Cockcroft (appointed 07/07/10 resigned 06/04/11)	2012	-	-	-	-	-	-	-	-
	2011	140,194	-	1,539,494	-	-	1,679,688	-	91%
Total, all directors	2012	296,926	-	244,417	8,380	-	549,723		44%
	2011	279,977	460,436	1,539,494	22,406	-	2,302,313		
Executives									
Johannes Niemetz(*)	2012	143,141	-	-	-	-	143,141	-	-
	2011	16,093	-	-	-	-	16,093	-	-
Mark Pitts	2012	60,520	-	-	-	-	60,520	-	-
	2011	70,520	-	-	-	-	70,520	-	-
Frederic Briens	2012	166,667	84,568	-	-	-	251,235	-	-
	2011	-	-	-	-	-	-	-	-
Total, all executives	2012	370,328	84,568	-	-	-	454,896		
	2011	86,613	-	-	-	-	86,613		

(*) Mr Niemetz worked as a consultant during the year ended 30 June 2011.

(**) Represents amounts paid as additional remuneration on a one-off basis to Directors pursuant to the Company's constitution and in respect of extra or special services (including being a committee member) performed by each of them over a period of some 18 months. The amounts paid as additional remuneration are considered to be reasonable given the circumstances of the Company and the circumstances of each Director (including the responsibilities involved) over the financial year and the prior financial year.

The fair value of the options was assessed at €0.040 per option and an expense of €244,417 has been recognised during the year (2011: €1,539,494). The following inputs were used in estimating the fair value of the options granted:

Grant Date:	29 November 2011
Expiry Date:	31 December 2012
Spot Rate:	€ 0.23
Exercise Price:	€ 0.40
Risk free rate:	3.12%
Volatility:	100%

Equity Instruments

Analysis of movements in shareholdings

	Balance as at 01 July 2011	Acquired during the year	Disposed during the year	Balance as at 30 June 2012
Directors				
Julien Moulin	-	-	-	-
Rodney Bresnehan	-	46,950	-	46,950
Sebastian Hempel	-	21,000	-	21,000
Peter Cockcroft	-	-	-	-
Company Executives				
Frederic Briens	-	-	-	-
Johannes Niemetz	-	-	-	-
Mark Pitts	-	-	-	-
	-	67,950	-	67,950

Analysis of movements in options

	Balance as at 01 July 2011	Granted during the year	Exercised / lapsed during the year	At termination date	Balance as at 30 June 2012
Directors					
Julien Moulin	-	6,000,000	-	-	6,000,000
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Company Executives					
Frederic Briens	-	-	-	-	-
Johannes Niemetz	-	-	-	-	-
Mark Pitts	-	-	-	-	-
	-	6,000,000	-	-	6,000,000

THIS IS THE END OF THE REMUNERATION REPORT

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
European Gas Limited
Suite 8, 7 The Esplanade
MT PLEASANT WA 6153

28 September 2012

Dear Board Members

European Gas Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of European Gas Limited.

As lead audit partner for the audit of the financial statements of European Gas Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Chris Nicoloff
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated Entity	
		2012 €'000	2011 €'000
Continuing operations			
Finance income		279	45
Royalty income		21	17
Total income		300	62
Professional and consultancy fees		(337)	(2,608)
Financial expenses	2	-	(2,916)
Share based payment expenses	14	(245)	(1,540)
Administrative and other expenses		(492)	(501)
Loss before tax from continuing operations		(774)	(7,502)
Income tax benefit / (expense)	5	-	-
Loss after tax from continuing operations		(774)	(7,502)
Discontinued operations			
Net profit / (loss) from discontinued operations, net of tax	6	(6,703)	8,154
Net profit / (loss) for the year		(7,477)	652
Other comprehensive income			
Fair value gain/(loss) on available for sale financial asset		-	8
Total other comprehensive income		-	8
Total comprehensive profit/(loss) for the year		(7,477)	660
		Cents	Cents
Basic earnings / (loss) per share	23		
- From continuing operations		(0.26)	(3.68)
- From total operations		(2.52)	0.27
Diluted earnings / (loss) per share	23		
- From continuing operations		(0.26)	(3.68)
- From total operations		(2.52)	0.27

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	Consolidated Entity	
		2012 €'000	2011 €'000
Current Assets			
Cash and cash equivalents	17(a)	605	9,993
Trade and other receivables	3	31	57
Prepayments		-	16
Non-current assets available for distribution to shareholders	6	29,550	-
Total Current Assets		30,186	10,066
Non-Current Assets			
Available for sale financial assets	4	52	60
Intangible Assets	7	-	-
Property, plant and equipment	8	-	1,078
Exploration & evaluation expenditure	9	-	26,776
Total Non-Current Assets		52	27,914
Total Assets		30,238	37,980
Current Liabilities			
Trade and other payables	11	119	1,801
Liabilities of the disposal group	6	790	-
Interest bearing liabilities	12	-	-
Total Current Liabilities		909	1,801
Total Liabilities		909	1,801
Net Assets		29,329	36,179
Equity			
Contributed equity	13	53,460	53,077
Reserves	15	3,523	3,279
Accumulated losses		(27,654)	(20,177)
Total Equity		29,329	36,179

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated Entity	
		2012 €'000	2011 €'000
Cash Flows From Operating Activities			
Receipts from customers		21	4,712
Payments to suppliers and employees		(3,462)	(5,028)
Interest paid		-	(484)
Interest received		279	45
Income taxes received / (paid)		-	(567)
Net cash used in operating activities	17	(3,162)	(1,322)
Cash Flows From Investing Activities			
Purchase of plant & equipment		(217)	-
Expenditure on exploration		(1,672)	-
Proceeds from sale of equity investments		-	99
Cash outflow on discontinued operations*	6	-	(1,299)
Net Cash Used in Investing Activities		(1,889)	(1,200)
Cash flows from financing activities			
Proceeds from issue of shares		383	12,005
Cost of share issue		-	(906)
Net Cash Provided By Financing Activities		383	11,099
Net decrease in cash and cash equivalents held		(4,668)	8,577
Effect of translation of foreign currency		1	(133)
Cash and cash equivalents at 1 July 2011		9,993	1,549
Cash and cash equivalents at 30 June 2012	17	5,326	9,993

* Relates to disposal of Gazonor in 2011

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Issued capital	Share based payment reserve	Foreign currency translation reserve	Available for sale investment reserve	Accumulated losses	Total
	€'000	€'000	€'000	€'000	€'000	€'000
At 1 July 2010	32,719	661	(36)	27	(20,829)	12,542
Profit for the year	-	-	-	-	652	652
Other comprehensive income for the year	-	-	-	8	-	8
Total comprehensive income for the year	-	-	-	8	652	660
Recognition of share based payments	-	1,540	-	-	-	1,540
Transfer *	401	(401)	-	-	-	-
Issue of shares in settlement of debts	8,859	1,480	-	-	-	10,339
Issued shares for cash consideration	12,004	-	-	-	-	12,004
Transaction costs of share issue	(906)	-	-	-	-	(906)
Total transaction with equity holders	20,358	2,619	-	-	-	22,977
At 30 June 2011	53,077	3,280	(36)	35	(20,177)	36,179
At 1 July 2011	53,077	3,280	(36)	35	(20,177)	36,179
(Loss) for the year	-	-	-	-	(7,477)	(7,477)
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(7,477)	(7,477)
Recognition of share based payments		244				244
Issued shares for cash consideration	383	-	-	-	-	383
Total transaction with equity holders	383	-	-	-	-	383
At 30 June 2012	53,460	3,524	(36)	35	(27,654)	29,329

* Balance in option valuation reserve has been transferred to retained earnings (on expiry or cancellation) and issued capital (on exercise) to the extent of those options which have been exercised / lapsed / cancelled by the reporting date.

The accompanying notes form part of this financial report.

1. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

A REPORTING ENTITY

European Gas Limited (the 'Company') is a for profit company domiciled in Australia. The address of the company's registered office is Suite 8, 7 The Esplanade, Mt Pleasant Western Australia 6153, Australia. The consolidated financial statements of the company as at and for the year ended 30 June 2012 comprise the company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the exploration for commercial coal bed and coal mine methane deposits in Europe.

The financial report was authorised for issue by the Directors on 28 September 2012.

B BASIS OF PREPARATION

Statement of Compliance

The financial report is a for profit general purpose report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Functional Currency

The financial report is presented in Euros (€).

Euro was adopted as the functional currency of the consolidated entity with effect from 1 January 2008, as the Group is predominantly exposed to the European economic environment.

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand euro's, or in certain cases, the nearest euro.

Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale or held for distribution to the equity holders and that represents a separate business segment. The results of discontinued operations are presented separately on the face of the statement of comprehensive income. The comparative for the prior period has been restated to conform to the current period's presentation.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction and available for immediate sales in its present condition and its sale must be highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell at each reporting date until disposal. A gain or loss not previously recognised by the date of the sale is recognised at derecognition.

Non-current assets are not depreciated or amortised from the date of such classification.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Principles of Consolidation

A controlled entity is any entity European Gas Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 25 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

(ii) Foreign currency transaction

Both the functional and presentation currency of European Gas Limited and all its subsidiaries is Euros (€).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to other comprehensive income until the disposal of the net investment, at which time they are recognised in the profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – 5 to 8 years

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iii) Property, plant and equipment (cont'd)

Other plant and equipment

Other plant and equipment is depreciated using the straight line method over its estimated useful life. The depreciation rates used for other plant and equipment are in the range 10%-33%.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of their value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(iv) Exploration and Development Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(v) Borrowing costs

Borrowing costs are recognised as an expense when incurred except for borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(vi) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

(vii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying value of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cashflows that are largely independent of those other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cashflows are discounted to their present value of money and the risks specific to the asset.

(viii) Investments

All investments are initially recognised fair value including acquisition charges associated with the investment except for investments classified at fair value through profit or loss.

After initial recognition, investments, which are classified as available for sale, are measured at fair value.

Gains or losses on available-for-sale investments are recognised in other comprehensive income until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which point the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

Parent's investments in the subsidiaries are accounted at "cost" per AASB 127. The management assess the carrying amount of such investments at each balance date, and any impairment therein is provided for.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ix) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(x) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of Statement of Cashflows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xi) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received and are subsequently measured at amortised cost.

(xii) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised and as well as through the amortisation process.

(xiii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision in the profit or loss is net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of the money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xiv) Share based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Company operates an Employee Share Option Plan (ESOP), which provides benefits to directors, senior executives, consultants and contractors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Binomial Tree and Black -Scholes models, taking into account the terms and conditions upon which options were granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of European Gas Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xv) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xvi) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales revenue

Revenue from the sale of gas is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue received during the commission phase of gas assets is recorded, together with the related costs of production, against the capitalised carrying value of the asset.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Royalty income

Revenue is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(xvii) Income tax

Income tax recognised in profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Current tax liability is recognised to the extent of unpaid income taxes for the current and prior periods. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as a current tax asset.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xvii) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(xviii) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") / Value Added Tax ("VAT") except:

- Where the GST / VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST / VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST / VAT included.

The net amount of GST / VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of cash flows on a gross basis and the GST / VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are discussed net of the amount of GST / VAT recoverable from, or payable to, the taxation authority.

C SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(xix) Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group

Key Estimates — Impairment (Refer to Note 6)

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. The Group is holding assets for exploration and evaluation expenditure where there is uncertainty regarding recoverability and successful development of the area, as discussed in Note 1C (v).

The result of this judgement in the prior year was that certain exploration and evaluation assets had become impaired and accordingly an impairment loss (exploration expenditure written off) was recognised in the income statement in the prior year.

Share based payments (Refer to Note 14)

The values of amounts recognised in respect of share based payments have been estimated based on the fair value of the options. To estimate this fair value an option pricing model has been used. There are many variables and assumptions used as inputs into the model (which have been detailed in Note 14). If any of these assumptions or estimates were to change this could have a significant effect on the amounts recognised.

Deferred tax asset (Refer to Note 5)

An estimate of the probability of Group's ability to recoup deferred tax asset from future taxable profits are made as at each reporting date. Deferred tax asset (in excess of deferred tax liability) on tax losses and temporary deductible differences are recognised to the extent that sufficient future taxable profits are probable in the same tax jurisdiction in which those tax losses and deductible temporary differences arise.

(xx) Compound Financial Instruments

The Group evaluates the terms of any financial instrument to determine whether it contains both a liability and an equity component. The separate components of a financial instrument that create a financial liability and grant an option to the holder of the instrument to convert it into an equity instrument are recognised separately on the Statement of Financial Position.

(xxi) Other intangible assets

Other intangible assets that are acquired are stated at costs less accumulated amortisation and impairment losses. Amortisation is recognised as an expense on a straight-line basis over the estimated useful life of the assets

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

Amendments to AASB 7
'Financial Instruments:
Disclosure'

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' 1) clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to AASB 101
'Presentation of Financial
Statements'

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' 1) clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-14 'Amendments to
Australian Interpretation –
Prepayments of a Minimum
Funding Requirement'

Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments to Interpretation 114 has not had material effect on the Group's consolidated financial statements.

AASB 2009-12 'Amendments to
Australian Accounting Standards

The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009). The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2009-12 has not had any material effect on amounts reported in the Group's consolidated financial statements.

AASB 2010-5 'Amendments to
Australian Accounting Standards

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS (CONT'D)

AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset.

To date, the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore, the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', AASB 200911 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 January 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 January 2012	30 June 2013

Management are in the process of assessing the impact of these standards on the group's financial report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

2. FINANCE EXPENSES

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Finance Expense		
-Interest paid	-	380
-Finance costs arising from amortisation process	-	2,536
	-	2,916

3. TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Current		
- Trade receivables	-	-
- Other receivables ⁽¹⁾	385	57
- Reclassification to assets available for sale ⁽²⁾	(354)	-
Total Current Receivables	31	57

(1) Other receivables contains amounts relating to monies owed from refunds of Value Added Tax and Goods and Services Tax, which are both deemed to carry a low credit risk.

(2) For details of the transactions that affect the restructuring of the Group refer to Note 6 – Discontinued Operations.

4. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated Entity	
	2012	2011
	€	€ ,000
Investment in listed shares at fair value	52	60
Total	52	60

The fair values have been assessed applying the closing bid price of the investments as noted in their respective stock exchanges.

5. INCOME TAX EXPENSE

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Major components of income tax expense for the years ended 30 June 2012 and 2011 are:		
Income statement		
<i>Current income</i>		
Current income tax charge	-	-
<i>Deferred income tax</i>		
Adjustment to current tax for prior period	-	-
Relating to origination and reversal of temporary differences	-	-
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	-	-
Income tax expense reported in income statement	-	-
A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense.		
Accounting profit (loss) before tax from continuing operations	(7,477)	(8,805)
Profit before tax from discontinued operations	-	9,592
Accounting profit (loss) before income tax	(7,477)	787
At the statutory income tax rate of 30% (2011: 30%)	(2,243)	236
Adjustment on account of different tax rates	(1,477)	-
Tax loss not brought to account as a deferred tax asset	602	1,109
Non-deductible expenses	2,968	(1,172)
Adjustments in respect of previous current income tax	150	-
Temporary differences not recognised	-	(38)
Income tax expense	-	135
Income tax expense reported in the statement of comprehensive income	-	-
Income tax attributable to discontinued operation	-	135
Unrecognised deferred tax assets	-	135
Deferred tax assets have not been recognised in respect of the following items		
Provision for Impairment	-	-
Other assets	91	88
Employee benefits	1	5
Capital raising costs	81	314
Un-realised foreign exchange losses (gains)	4	-
Other	2	-
Tax Losses	7,625	1,401
	7,804	1,808

The tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

6. DISCONTINUED OPERATIONS

Profit/(loss) from discontinued operations comprises of:

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Distribution of exploration assets	(6,704)	(1,303)
Sale of Gazonor Segment	-	9,457
	(6,704)	8,154

30 June 2012

During the year ended 30 June 2012 the Group commenced an internal restructuring process which was designed to centre the Group's European assets under UK Subsidiary European Gas Limited ("EGL UK").

The restructuring of the Group for the current year has been implemented through the combination of the following:

- ix. the sale of 100% of Heritage Petroleum Limited's share capital to EGL UK for €1;
- x. the sale of 100% of European Gas S.A.S.'s share capital to EGL UK for €4,000,000;
- xi. assignment of the farmout and joint operating agreements between European Gas Limited and Gazonor in respect of the Sud Midi and Valenciennois exploration permits to EGL UK;
- xii. assignment of the production sharing agreement with Gazonor in respect of the Poissonniere and Desiree production permits to EGL UK;
- xiii. assignment of €11,140,836 of the intercompany debt due to European Gas Limited from EGL UK to European Gas S.A.S. as repayment of the debt owed by European Gas Limited to European Gas S.A.S.;
- xiv. waiver and forgiveness of the total intercompany debt due to European Gas Limited from EGL UK;
- xv. sub-division of the £1 ordinary share capital in EGL UK into 297,272,505 ordinary shares of £0.000000004 each; and
- xvi. the implementation of a Share Buy-back offer by European Gas Limited as announced on the ASX on 4 June 2012. Under the Offer the Company proposed to buy back up to 100% of the ordinary shares held in the capital of the Company by each shareholder of the Company who was eligible to participate in the Offer. For each share bought back, 1 ordinary share in EGL UK was offered as consideration.

Shareholder approval for the Buy-back Offer was obtained on 17 July 2012 and was subsequently completed on 26 July 2012. Pursuant to the buy-back European Gas Limited bought back and cancelled 221,615,657 of its own ordinary shares and as a result on 26 July 2012 only holds 25.45% interest in the ordinary share capital of EGL UK.

The segment was not a discontinued operation or classified as held for sale as at 30 June 2011 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

Results of discontinued operations:

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Depreciation	(137)	(46)
Write off of non-current assets	(5,132)	-
Administration and other expenses	(1,434)	(1,257)
Profit / (loss) before tax	(6,703)	(1,303)
Income tax expense	-	-
Profit / (loss) after tax from discontinued operations	(6,703)	(1,303)

6. DISCONTINUED OPERATIONS (CONT'D)

Assets and liabilities classified as held for distribution to shareholders:

	2012 € ,000
Assets	
Cash and cash equivalents (Note 17a)	4,721
Trade and other receivables (Note 3)	354
Property, plant and equipment	80
Exploration & evaluation expenditure (Note 9)	24,395
	29,550
	29,550
 Liabilities	
Trade and other payables (Note 11)	(790)
	(790)
	(790)

30 June 2011

The Group entered into a restructuring agreement with Transcor Astra Luxembourg SA on 4 February 2011 to sell its interest in Gazonor SA (a 100% subsidiary of European Gas Limited) and issue additional equity instruments in settlement of the convertible notes at 31 March 2011.

On the 6 May 2011 European Gas Limited (EGL) announced that, further to the Restructuring Framework Agreement announced on 7 February 2011, it has completed the full restructuring (retirement) 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 (retirement) of the Notes.

The restructuring of the Notes has been implemented through the combination of the following:

- i. subscription by Transcor for 22,000,000 EGL shares at AUD 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 20,000,000 EGL shares at an exercise price of AUD 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 Poissonniere and Desiree production permits.

Shareholder approval of the Note restructuring and Gazonor disposal was obtained on 28 March 2011.

The segment was not a discontinued operation or classified as held for sale as at 30 June 2011 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

6. DISCONTINUED OPERATIONS (CONT'D)

Results of discontinued operation:

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Sales	-	4,661
Cost of sales	-	(2,696)
Write back of provision	-	144
Other income	-	58
Depreciation & amortisation	-	(313)
Administration and other expenses	-	(1,516)
Profit / (loss) of Gazonor before tax	-	338
Income tax expense	-	(135)
Profit / (loss) of Gazonor after tax	-	203
Gain on sale of Gazonor SA	-	9,254
Profit / (loss) from discontinued operations	-	9,457

Cash flows from (used in) discontinued operation:

Net cash from operating activities	-	586
Net cash from investing activities	-	12
Net cash from financing activities	-	-
Net cash flows for the year	-	598

Consideration received for the disposal of Gazonor:

Extinguishment of convertible notes issued on 28/12/2007	39,608
Issue of 22,000,000 shares in European Gas Limited at AU\$0.45 each	(7,174)
Issue of 20,000,000 unlisted options in European Gas Limited at AU\$0.45 each (note 14)	(1,147)
Extinguishment of European Gas SAS loan with Gazonor:	3,890
Sale of 50% in European Gas Benelux	(150)
Total Gazonor SAS disposal consideration	35,027
less:	
Carrying amount of Gazonor net assets sold	(1,762)
Goodwill in Gazonor	(24,011)
Carrying amount of Gazonor SA on the date of sale	(25,773)
Gain on sale of Gazonor SA	9,254
Cash and cash equivalents disposed of	(709)
Net cash outflow	(709)

7. INTANGIBLE ASSETS

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Goodwill	-	-
Software	-	-
Other	-	-
	-	-
	-	-

Movement in intangible assets	Goodwill⁽¹⁾	Software	Other	Total
	€ ,000	€ ,000	€ ,000	€ ,000
Balance at 01 July 2011	-	-	-	-
Acquired during the year	-	-	-	-
Disposed during the year	-	-	-	-
Amortisation during the year	-	-	-	-
Balance at 30 June 2012	-	-	-	-
	-	-	-	-
Balance at 01 July 2010	24,011	3	64	24,078
Acquired during the year	-	-	-	-
Disposed during the year	(24,011)	(1)	(55)	(24,067)
Amortisation during the year	-	(2)	(9)	(11)
Balance at 30 June 2011	-	-	-	-
	-	-	-	-

(1) For details of the disposal of Gazanor SAS refer to Note 6 – Discontinued Operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

8. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Plant and equipment		
- At cost	8	1,201
- Accumulated depreciation	(8)	(123)
Total plant and equipment	-	1,078
Total property, plant and equipment	-	1,078

Movement in the carrying amounts for plant and equipment between the beginning and end of current financial years.

	Land and Buildings	Plant and Equipment	Total
	€ ,000	€ ,000	€ ,000
Consolidated entity			
- Balance at 01 July 2011	-	1,078	1,078
- Additions	-	217	217
- Depreciation	-	(137)	(137)
- Assets written-off during the year	-	(1,078)	(1,078)
- Assets transferred to discontinued operations	-	(80)	(80)
Carrying amount at 30 June 2012	-	-	-

	Land and Buildings	Plant and Equipment	Total
	€ ,000	€ ,000	€ ,000
Consolidated entity			
- Balance at 01 July 2010	467	2,942	3,409
- Additions	-	-	-
- Depreciation	(55)	(293)	(348)
- Disposals	(412)	(1,571)	(1,983)
Carrying amount at 30 June 2011	-	1,078	1,078

9. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Exploration expenditure costs carried forward in respect of areas of interest in:		
<ul style="list-style-type: none"> - Pre-Production: - Exploration and evaluation phases - at cost 		
Balance at the beginning of the year	26,776	26,838
Expenditure capitalised during the year	1,672	-
Disposed during the year	-	(62)
Assets written-off during the year	(4,054)	-
Reclassification to assets available for distribution to share holders ⁽¹⁾	(24,395)	-
Balance at the end of the year	-	26,776

Ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development & commercial exploitation or sale of the respective exploration areas.

(1) For details of the transactions that affect the restructuring of the Group refer to Note 6 – Discontinued Operations.

10. ESTIMATED EXPENDITURE COMMITMENTS

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Leasing commitments		
0- 1 years	-	114
1- 5 years	-	364
≥5 years	-	82
	-	560

These commitments relate to the contracted licence renewal amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

11. TRADE AND OTHER PAYABLES

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Trade payables and accruals	848	1,740
Payable to shareholders of Heritage Petroleum ⁽¹⁾	61	61
Reclassification to liabilities of the disposal group ⁽²⁾	(790)	
	<u>119</u>	<u>1,801</u>

(1) Funds held on deposit owing to shareholders of Heritage Petroleum subsequent to the acquisition in 2007 who were unable to be located.

(2) For details of the transactions that affect the restructuring of the Group refer to Note 6 – Discontinued Operations.

Trade and other payable are generally have a credit term of 30 to 90 days.

12. INTEREST BEARING LIABILITIES

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
<i>Current</i>		
-Short term loan less transaction costs	-	-
-Debt component convertible note at amortised cost	-	-
	<u>-</u>	<u>-</u>
<i>Non-Current</i>		
- Debt component convertible note at amortised cost	-	-
	<u>-</u>	<u>-</u>

30 June 2012:

As at the financial year ended 30 June 2012 the Company had no interest bearing liabilities.

30 June 2011:

The following items pertained to the financial year ended 30 June 2011:

Short term loans:

On 29 March 2010, the group entered into a loan agreement with a Panama based company to borrow up to € .69 million to fund the working capital requirements of the group.

12. INTEREST BEARING LIABILITIES (CONT'D)

The key terms of the loan were:

- The borrowings are interest free;
- The group has granted 25,000,000 options in ordinary shares of European Gas Limited. These options are exercisable at A\$0.12 if exercised up to 30 September 2010, and A\$0.18 if exercised thereafter up to 31 March 2010;
- The loan is repayable on 31 March 2011.

The options granted to the lender have been recognised as transaction costs at its fair value on the grant date being 29 March 2010.

The loan was fully settled on 31 May 2011 following a variation agreement entered into with the lender dated 29 March 2011.

European Gas Limited settled the loan by:

- Issuing 5,000,000 shares (Note 13)
- Issuing 6,000,000 unlisted options exercisable at 50 cents each on or before 30 April 2012 (Note 14).

Convertible notes:

On 28 December 2007, European Gas issued Convertible Notes to Transcor Astra Group, a subsidiary of Compagnie Nationale à Portefeuille S.A. (a European based business group) to fund its acquisition of Gazonor and for working capital purposes.

The Notes were issued in two tranches:

- Tranche A: 14,500 Notes @ €1,500 each totalling €21.750 million; and
- Tranche B: 9,750 Notes @ €1,500 each totalling €14.625 million.

The terms of the Notes were:

- Maturity: 36 months from the date of issue
- Applicable currency: Euro (€)
- Coupon rate:
 - Tranche A: 5% p.a. of nominal value;
 - Tranche B: 5% p.a. initially since 28 December 2007.
- Interest payment:
 - For Tranche A: paid quarterly;
 - For Tranche B: at redemption or conversion, the interests being capitalised and added to the nominal value of the Note.
- Conversion right: Note-holder has the right to convert all or part of the Notes to ordinary shares of European Gas:
 - For Tranche A: any time after 41st day of the issue and 7th day before maturity;
 - For Tranche B: any time after Convertibility Event and 7th day before maturity.
- Conversion price: approximately €0.66 per Note following recent share issues.
- Conversion ratio: Nominal value divided by conversion price.
- Redemption at maturity: All outstanding Notes at maturity shall be redeemed in cash.
- Other terms: Provisions have been made in the agreement to guard Note-holder's interest with respect to issue of additional shares, bonus shares, and dividends during the period up to maturity/conversion.
- Security has been given over the shares in Gazonor S.A. and its immediate holding company, and also over an intercompany loan with the said holding company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

12. INTEREST BEARING LIABILITIES (CONT'D)

Restructuring Framework Agreement

The Group entered into a restructuring agreement with Transcor Astra Luxembourg SA on 4 February 2011 to sell its interest in Gazonor SA (a 100% subsidiary of European Gas Limited) and issue additional equity instruments in settlement of the convertible notes at 31 March 2011.

On the 6 May 2011 European Gas Limited announced that, further to the Restructuring Framework Agreement announced on 7 February 2011, it has completed the full restructuring (retirement) 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 (retirement) of the Notes. Details of the terms of the discharge are included with Note 6 – Discontinued Operation.

13. CONTRIBUTED EQUITY

As at 30 June 2012 there were 296,161,505 fully paid ordinary shares on issue. (2011: 296,161,505)

Movement in contributed equity	Consolidated Entity			
	2012	2011	2012	2011
	€ ,000	€ ,000	Number	Number
At the beginning of the reporting period	53,078	32,719	296,161,505	213,944,359
Shares issued during the year				
Share based payments *	-	8,859	-	27,000,000
Share placement **	383	9,905	1,111,000	30,217,146
Exercise of options	-	2,100	-	25,000,000
Cost of raising equity	-	(906)	-	-
Transfer from option reserve	-	401	-	-
At reporting date	53,461	53,078	297,272,505	296,161,505

* *Share based payments*

- 22,000,000 shares were valued at a price of AU \$0.45 each, these were in consideration of the transactions associated with the Restructuring Framework Agreement as stipulated in Note 6 Discontinued Operation.
- 5,000,000 shares were valued at a price of AU \$0.45 each, these were in consideration of the transactions associated with the repayment of the interest free loan as stipulated in Note 12 – Interest Bearing Liabilities.
- 588,697 shares were issued in 2010 at a price of 25.48 cents each, these were in consideration of a A\$150,000 implementation fee associated with and Equity Line of Credit Agreement.

** *Share placement*

The company issued 30,217,146 to sophisticated and institutional investors in May 2011 to raise €905,000, before costs. These shares were issued at AU\$0.45 each. During the year ended 30 June 2012 the company issued a further 1,111,000 shares as part of this placement.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

13. CONTRIBUTED EQUITY (CONT'D)

Subsequent to the year-end the Company obtained shareholder approval for the Buy-back Offer as mentioned in Note 6 – Discontinued Operations. Pursuant to the buy-back European Gas Limited bought back and cancelled 221,615,657 of its own ordinary shares and transferred equal number of shares in EGL UK in consideration. The buy-back was completed on 26 July 2012. As a result the parent entity's interest in EGL UK reduced from 100% to 25.45%.

Issued Options

The following options to issue ordinary shares were on issue as at 30 June 2012. All options outstanding are over unissued shares in European Gas Limited.

Consolidated Entity

	30 June 2012		30 June 2011	
	Number	Exercise price	Number	Exercise price
Unlisted options expiring on:				
- 15 April 2012*	-	-	2,000,000	\$2.50
- 31 Dec 2011*	-	-	1,500,000	\$0.35
- 31 Dec 2012	3,000,000	\$0.50	3,000,000	\$0.50
- 31 Dec 2012	10,000,000	\$0.70	10,000,000	\$0.70
- 30 Apr 2012*	-	-	6,000,000	\$0.50
- 05 May 2012*	-	-	20,000,000	\$0.50
- 31 Dec 2012**	6,000,000	\$0.50	-	-
	19,000,000		42,500,000	

* These options lapsed during the reporting period.

** Please refer to Note 14 – Share Based Payments for further details.

14. SHARE BASED PAYMENTS

The following share-based payments arrangements existed at 30 June 2012

The company established the European Gas Limited Share Option Incentive Plan in 2000 (Plan). The board in its absolute discretion may invite eligible participants to join the Plan based on its assessment of the prospective participant's contribution to the performance of the group. The total number of Shares to issue upon exercise of Options subject to the Plan at any time, together with any other shares which may be issued under, or which are the subject of, any other of the company's employees share or option incentive schemes, shall not represent more than 10% of the number of the shares on issue in the company at the time of the issue of the options under the Plan. The terms and conditions applicable to options granted will be as determined from time to time by the board in its absolute discretion at the time of the grant of the option's and options may be granted upon different terms and conditions to those applicable to any other options granted.

Subsequently and in general meeting the company approved the renewal and upgrade of the Employee Share Option Plan ("Incentive Plan") firstly in November 2006 and then in March 2011. These renewals enabled the Company to ensure it complied with listing rule 7.2 of the Australian Stock Exchange and to ensure the Incentive Plan continued to meet the future objectives of the company. The grant of options is designed to encourage the recipients to have a greater involvement in the achievement of the company's objectives and to provide an incentive to directors by participating in the future growth and prosperity of the company through share ownership.

On 29 March 2010 the Company approved the grant of 25,000,000 short term options in consideration for a A\$2.5 million dollar interest free loan from a High Net Worth Private investor. The options are exercisable at any time up until 31 March 2011 at an exercise price of \$0.18 per option, if exercised on or before 30 September 2010 the exercise price shall be \$0.12 per option.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

14. SHARE BASED PAYMENTS

On 26 November 2010, the Company granted 14,500,000 director options in consideration for the services of the then CEO Mr. Peter Cockcroft. These options vested immediately and have the following exercise prices and expiry date:

- 1,500,000 exercisable at AU\$0.35 expiring on 31 December 2011
- 3,000,000 exercisable at AU\$0.50 expiring on 31 December 2011
- 10,000,000 exercisable at AU\$0.70 expiring on 31 December 2012

On 5 May 2011 the Company granted 20,000,000 short term options in consideration for the settlement of the transactions per the Restructuring Framework Agreement as stipulated in Note 6 – Discontinued Operation. The options are subject to a six month escrow period from date of issue where after it will be exercisable at any time up until 5 May 2012 at an exercise price of AU\$0.50 per option.

On 31 May 2011 the Company granted 6,000,000 short term options in consideration for the repayment of the interest free loan as stipulated in Note 12 – Interest Bearing Liabilities. The options were exercisable at any time up until 30 April 2012 at an exercise price of AU\$0.50 per option.

On 29 November 2011, the Company granted 6,000,000 director options in consideration for the services of the Chairman Mr. Julien Moulin. These options vested immediately and exercisable at any time up until 31 December 2012 at an exercise price of \$0.50 per option. The fair value was assessed to be €244,417 and this has been expensed during the year.

Except in prescribed circumstances, all options lapse on the day that is 20 business days after the termination of employment or office of the option holder. The options in each of the abovementioned series were fully vested from the date of grant and are un-listed and contain restrictions on transfer.

	Consolidated Entity			
	2012		2011	
	Number of Options	Weighted Average Exercise Price A\$	Number of Options	Weighted Average Exercise Price A\$
Outstanding at the beginning of the year	42,500,000	0.63	27,000,000	0.37
Granted	6,000,000	0.16	40,500,000	0.51
Lapsed	(29,500,000)	(0.18)	-	-
Exercised	-	-	(25,000,000)	(0.25)
Outstanding at year-end	19,000,000	0.61	42,500,000	0.63

The options outstanding at 30 June 2012 had a weighted average exercise price of A\$0.61 and a weighted average remaining contractual life of 0.5 years.

The weighted average fair value of the options granted during the year was €0.034 (2011: €0.086). These prices were calculated by using a Binomial tree option pricing model applying the following inputs:

	Other options	Director options
Estimated terms of the options	1-2 years	0.54 - 1.05
Underlying share price	\$0.45 - \$0.50	\$0.28 - \$0.45
Expected share price volatility	50%	70% - 115%
Risk free interest rate	4.57% - 4.80%	3.12% - 4.75%

15. RESERVES

Consolidated entity	Option valuation reserve € ,000	Foreign currency translation reserve € ,000	Available for sale investments reserve € ,000	Total € ,000
Balance at the beginning of the year	3,280	(36)	35	3,279
Movement during the year	244	-	-	244
At 30 June 2012	3,524	(36)	35	3,523

Option valuation reserve

The option valuation reserve represents the fair value attaching to the unexercised options. As options are exercised the reserve is reduced and contributed equity is increased.

16. PARENT ENTITY DISCLOSURES

As at, and throughout the year ending 30 June 2012 the parent entity of the consolidated entity was European Gas Limited.

	PARENT ENTITY	
	2012 € ,000	2011 € ,000
Results of the parent entity		
Loss for the period	(38,218)	(6,611)
Other comprehensive income	-	8
Total comprehensive loss for the period	(38,218)	(6,603)
Financial position of the parent entity at year end		
Current assets	635	9,473
Total assets	687	51,895
Current liabilities	(123)	(1,682)
Total liabilities	(123)	(13,740)
Net assets	564	38,155
Total equity of the parent entity comprising of:		
Share capital	53,460	53,077
Options valuation reserve	3,524	3,280
Available for sale financial asset reserve	35	35
Accumulated losses	(56,455)	(18,237)
Total equity	564	38,155

At 30 June 2012, the parent entity had no contingent liabilities or commitments to purchase property, plant and equipment. The parent entity has not guaranteed the debts of the controlled entities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

17. CASH FLOW INFORMATION

		Consolidated Entity	
		2012	2011
		€'000	€'000
(a) Reconciliation of Cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash at Bank		5,326	9,993
Cash guarantees held at bank		-	-
Assets transferred to discontinued operations (refer Note 6)		(4721)	-
		605	9,993
(b) Reconciliation of Cash Flow From Operations with profit / (loss) for the year			
Profit / (Loss) for the year		(7,477)	652
Non-cash flows in loss from ordinary activities:			
Depreciation of non-current assets		137	359
Share based payments expense		244	-
Foreign Exchange (Gains)/Losses		-	133
Amortisation of financial liabilities		-	2,432
Loss on sale of available for sale financial assets		8	(13)
Write-back of provision		-	(144)
Gain on sale of Gazonor SA and EGB		-	(9,254)
Write-offs of non-current assets		5,132	-
Changes in assets and liabilities			
(Increase)/decrease in trade receivables		(327)	571
Increase/(decrease) in trade and other creditors		(894)	74
(Increase)/decrease in other current assets/prepayments		15	53
(Increase)/decrease in inventory		-	257
Increase/(decrease) in provisions		-	3,558
Cash Flows Used in Operations		(3,162)	(1,322)
Material non-cash transactions during the year			
	Note	2012	2011
		€'000	€'000
Sale of Gazonor SA and EGB	6	-	33,728
Extinguishment of convertible notes through issue of equity	6	-	(39,608)
Extinguishment of Ocean Dome Loan account	12	-	(2,212)
		-	(8,092)

Refer to Note 6 for distribution to equity holders that occurred subsequent to reporting date.

As at balance date the Company and its controlled entities had no credit standby arrangements with banks or other financial institutions.

18. CONTINGENT LIABILITIES

The Company, in previous financial statements, has made disclosure regarding the SAV Litigation (the litigation and proceedings between Gazonor SAS and Societe Arlesienne de Vinyle).

As Gazonor SAS has now been sold, it is considered that the SAV Litigation has no material effect on the Group going forward.

The Share Purchase Agreement dated 5 May 2011 regarding the sale of Gazonor SAS ('Gazonor', EGL's former operating subsidiary, which is now owned by Transcor France SAS ('Transcor France' or 'Purchaser')) contains a detailed description of the SAV Litigation (as mentioned in several previous announcements and reports by the Company).

In the Share Purchase Agreement ('SPA'), the subsidiary European Gas SAS ('EGSAS') as Seller has given a warranty that except as disclosed per the relevant description and to the best of EGSAS's knowledge, there are no judicial, administrative, arbitration proceedings, investigations or claims involving Gazonor pending or threatened and which may be materially prejudicial to the financial position of Gazonor or the ownership or use of its exploration or production permits. A related indemnity has been given by EGSAS in respect of this warranty and the parent company has guaranteed this indemnity obligation.

In addition, the SPA contains a list of the claims made by EGSAS or Gazonor against Filianor SA in connection with the 2007 acquisition by EGSAS of Gazonor.

Finally, the SPA:

- limits EGSAS's liability in respect of any loss suffered by Gazonor SAS in connection with the SAV Litigation up to a certain disclosed amount.
- imposes an obligation on EGSAS (as Seller) to take all reasonable steps (at the Purchaser's expense) as the Purchaser may reasonably require to enforce recovery of amounts in connection with any loss suffered by Gazonor against Filianor SA and pay to the Purchaser or Gazonor any amounts that are recovered by EGSAS or the Company in connection with the SAV Litigation.

Having regard to the SPA arrangements, no provision has been recorded in the financial statements in respect of this matter.

During the course of the financial year, the Company has sold EGSAS to EGL UK (refer to Note 6). In addition, and as a consequence of the sale, EGL UK has indemnified the Company against any exposure under the SPA as described above.

Subsequent to the end of the financial year (refer Note 26) the Company completed a Share Buy-back Offer and now only holds 25.45% interest in EGL UK.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

19. AUDITORS REMUNERATION

	CONSOLIDATED ENTITY	
	2012 € ,000	2011 € ,000
- auditing services		
o Deloitte Touche Tohmatsu – Australia	41	64
o PKF - France	6	13
o PKF – United Kingdom	46	24
	<hr/>	<hr/>
	93	101
- other services		
o PKF – United Kingdom	35	-
	<hr/>	<hr/>
	35	-
	<hr/>	<hr/>
Total Auditors Remuneration	128	101

20. SEGMENT REPORTING

The group operates in one operating segment, being:

- Exploration and evaluation of gases in Western Europe (now discontinued operations)

The group operates in one geographic segment, being Western Europe.

As a consequence of the re-organisation of the group subsequent to the year end, the exploration and evaluation business segment and the Western Europe geographic segment has been discontinued.

Refer to Note 6 for information of discontinued operations segment information.

21. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

Detail of specified directors and executives

Directors

Julien Moulin (*Appointed 01/09/2009*)

Rodney Bresnehan (*Appointed: 01/09/2009*)

Sebastian Hempel (*Appointed 01/09/2009*)

Specified executives

Frederic Briens, Chief Executive Officer (*Appointed 25/08/2011*)

Johannes Niemetz, Chief Operating Officer (*Appointed 15/07/2011*)

Mark Pitts, Company Secretary

Remuneration of directors and specified executives

	Short term benefits		Post employ- ment	Termination Benefits	Total	Performance linked remuneration
	Salary & fees	Share based payments	Superannua- tion			
	€	€	€	€	€	
Year ended						
30 June 2012						
Directors						
Julien Moulin	203,818	244,417	-	-	448,235	55%
Rodney Bresnehan	46,554	-	4,190	-	50,744	0%
Sebastian Hempel	46,554	-	4,190	-	50,744	0%
Specified executives						
Johannes Niemetz ⁽¹⁾	143,141	-	-	-	143,141	0%
Mark Pitts	60,520	-	-	-	60,520	0%
Frederic Briens	166,667	84,568	-	-	251,235	0%
	667,254	328,985	8,380	-	1,004,619	
Year ended						
30 June 2011						
Directors						
Julien Moulin	351,241	-	-	-	351,241	0%
Peter Cockcroft	140,194	1,539,494	-	-	1,679,688	92%
Rodney Bresnehan	124,489	-	11,203	-	135,692	0%
Sebastian Hempel	124,489	-	11,203	-	135,692	0%
Specified executives						
Johannes Niemetz ⁽¹⁾	16,093	-	-	-	16,093	0%
Mark Pitts	70,520	-	-	-	70,520	0%
	827,026	1,539,689	22,406	-	2,388,926	

(1) Mr Niemetz worked as a consultant during the year ended 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

21. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Movement in shareholding of directors and executives

	Opening balance Nos.	Acquired Nos.	On ceasing date Nos.	Closing balance Nos.
Year ended 30 June 2012				
Directors				
Julien Moulin	-	-	-	-
Rodney Bresnehan	-	46,950	-	46,950
Sebastian Hempel	-	21,000	-	21,000
Specified executives				
Frederic Briens	-	-	-	-
Johannes Niemetz	-	-	-	-
Mark Pitts	-	-	-	-
	-	67,950	-	67,950
Year ended 30 June 2011				
Directors				
Julien Moulin	-	-	-	-
Peter Cockcroft	-	-	-	-
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Specified executives				
Frederic Briens	-	-	-	-
Johannes Niemetz	-	-	-	-
Mark Pitts	-	-	-	-
	-	-	-	-

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under an arm's length terms and conditions.

21. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Movement in option holding of directors and executives

	Opening balance Nos.	Granted Nos.	Lapsed Nos.	On ceasing date Nos.	Closing balance Nos.
Year ended 30 June 2012					
Directors					
Julien Moulin	-	6,000,000	-	-	6,000,000
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Specified executives					
Mark Pitts	-	-	-	-	-
	-	6,000,000	-	-	6,000,000
Year ended 30 June 2011					
Directors					
Julien Moulin	-	-	-	-	-
Peter Cockcroft	-	14,500,000	-	14,500,000	-
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Specified executives					
Mark Pitts	-	-	-	-	-
		14,500,000		14,500,000	

Balances due to directors and executives

The following balances were due at reporting dates for the services rendered:

	2012	2011
	€	€
Julien Moulin	11,984	299,880
Rodney Bresnehan	12,976	80,278
Sebastian Hempel	12,049	80,278
Mark Pitts	-	9,352
	37,009	469,788

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

22. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

- i. European Gas Limited paid fees of €Nil (2011: €24,735) to Bresnehan & Associates Pty Ltd, of which Mr Bresnehan is an associate.

23. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 30 June 2012 was based on the (loss) attributable to ordinary shareholders of €7,478,009 (2011: profit of 651,243) for continuing and discontinued operations and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2012 of 297,272,500 (2011: 239,143,369), calculated as follows:

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
a. Profit (Loss) attributable to ordinary shareholders		
Profit (Loss) used in the calculation of basic and dilutive loss per share from continuing and discontinued operations	(7,477)	652
Profit (Loss) used in the calculation of basic and dilutive loss per share from continuing operations	(850)	(8,805)
	Number	Number
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	297,272,500	239,143,369
Weighted average number of dilutive options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	297,272,500	239,143,369
	Number	Number
c. Potential ordinary shares that are not dilutive and are excluded from the weighted average number of shares for the purposes on diluted earnings per share		
Equity share options	19,000,000	42,500,000
	<u>19,000,000</u>	<u>42,500,000</u>

24. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments:

		Consolidated Entity	
		Carrying amount	Fair Value
At 30 June 2012	Note	€ ,000	€ ,000
Cash and cash equivalent	a	605	605
Trade and other receivable	a	31	31
Available for sale financial assets	b	52	52
Trade and other payables	a	(119)	(119)
Interest bearing liabilities	c	-	-

		Consolidated Entity	
		Carrying amount	Fair Value
At 30 June 2011	Note	€ ,000	€ ,000
Cash and cash equivalent	a	9,993	9,993
Trade and other receivable	a	57	57
Available for sale financial assets	b	60	60
Trade and other payables	a	(1,801)	(1,801)
Interest bearing liabilities	c	-	-

This note includes financial instruments of continuing operations only.

- a) The carrying amounts closely approximate their fair values on account of the short maturity cycle.
- b) Fair value has been determined by applying the closing bid price at reporting date
- c) The fair value of interest bearing liabilities has not been determined as the group does not intend to trade in these financial instruments.

a) Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of managing risk by only dealing with creditworthy counterparties, all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are assessed for each individual customer and are regularly monitored.

The Group monitors the risk by ensuring all receivables are delivered to the group as stated within the related contractual agreements, thus allowing effective debt recovery. The group also submits on a regular basis claims for receivables from government agencies with respect to monies owing from GST and VAT related transactions.

The Group does not differentiate the policy it implements as a group with regards to receivables owing from subsidiaries.

The carrying amount of financial assets recorded in the balance sheet, represents the Group's maximum exposure to credit risk.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, and trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

24. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

	Consolidated Entity	
	2012 € ,000	2011 € ,000
Maximum Credit Risk	31	57
	31	57

b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Groups liquidity risk management policy has built an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities through the monitoring of future cash flow forecasts of all its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The Group does not differentiate the policy it implements as a group with regards to liquidity risk management towards its subsidiaries.

The following are the contractual maturities of the financial liabilities.

	Up to 6 months € ,000	6 - 12 months € ,000	1 - 3 years € ,000	Total € ,000
At 30 June 2012				
CONSOLIDATED ENTITY				
Trade and other payables*	119	-	-	119
	119	-	-	119

	Up to 6 months € ,000	6 - 12 months € ,000	1 - 3 years € ,000	Total € ,000
At 30 June 2011				

CONSOLIDATED ENTITY				
Trade and other payables	1,801	-	-	1,801
	1,801	-	-	1,801

The group's strategy to manage the liquidity risk arising in relation to the convertible notes has been discussed in Note 1(B).

c) Interest Rate Risk

The Groups income and operating cashflows are substantially independent of changes in market interest rates. The Groups only interest rate risk arises from the return received on cash assets deposited.

The Groups policy is to frequently monitor its cash assets held and ensure that the most favourable level of return is achieved via depositing funds accordingly.

24. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

Group cash assets held

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Cash*	605	9,993
	605	9,993

* Excludes items reclassified as available for distribution to shareholders. Refer Note 6 – Discontinued Operation for further details.

Based on the current market interest rate scenario, management considers that a movement of 1% could reasonably be expected within the next 12 months.

Effect of change in interest rates

	Interest Rate Change	Impact on Profit
		and Loss
	+/- %	Consolidated Entity
		+/- (€)
2012	1.00	6,048
2011	1.00	99,926

d) Foreign Currency Risk

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currency. The functional currency of the group is denominated in Euros as the Group is predominantly exposed to European economic environment. This has reduced the effect of foreign currency risk to the Group.

The Group's policy is to maintain and hold the sufficient foreign currency to meet its liabilities when due. Surplus financial assets are transferred and held within Euro currency based financial products.

	Consolidated Entity	
	2012	2011
	,000	,000
Unhedged amounts receivable / payable in foreign currency		
Cash*	605	8,865
Current – receivables	-	-
Financial assets	52	60
Current – payables	(119)	(119)
	538	8,806
	538	8,806

* Excludes items reclassified as available for distribution to shareholders. Refer Note 6 – Discontinued Operation for further details.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

24. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

	Profit or loss and equity	
	2012	2011
	€ ,000	€ ,000
Effect of change in exchange rates by 25%		
Appreciation of Euro	179	2,935
Depreciation of Euro	(108)	(1,761)

Exchange rate at reporting dates are 0.8077 (2012) and 0.7246 (2011)

Using a sensitivity movement of 25%, the impact on profit and loss can be clearly seen. Based on the historical deviation of the foreign exchange rate; the management considers a movement of 25% as reasonable expectation.

e) Commodity Price Risk

The Group are no longer exposed to the changes in commodity prices affecting the revenue received from the sale of gas. This is due to the disposal of the Gazonor production facility as per the Restructuring Framework Agreement as discussed in Note 6 – Discontinued Operations.

f) Equity Price Risk

The Group holds investments in one listed entity, and as such these are subject to varying valuations based on its current market price. The carrying value of the asset in the balance sheet represents the closing price of the entity at balance sheet date.

As the Group is not involved in the activity of pursuing investments in listed entities and has only acquired such assets through receiving them in consideration for prior sales of Group assets, the policy is to hold any investments until a sale can be achieved that would give the Group a reasonable cash asset.

	Consolidated Entity	
	2012	2011
	€ ,000	€ ,000
Available for sale financial assets	52	60

Effect of change in equity prices

	Price Change +/- %	Impact on Profit and Loss
		Consolidated Entity +/- (€)
2012	10.00	5,170
2011	10.00	6,017

Using a sensitivity movement of 10%, the impact on profit and loss can be clearly seen. This reflects a realistic movement given the assets are listed entities, and the fair value volatility that occurred during the period.

24. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (CONT'D)

g) Capital Risk Management

The Consolidated Entity ensures effective management of its capital structure so that it will be able to continue as a going concern. The Consolidated Entity's capital structure consists of cash and cash equivalents and equity attributable to the holders of equity within the Parent Entity, comprising issued capital and reserves as disclosed in the Statement of Changes in Equity. As is similar with many other exploration companies, finances are raised through the parent entity for the consolidated entity's exploration and appraisal activities in discrete tranches. The overall strategy of Consolidated Entity's remains consistent and unchanged from that of 2011.

25. CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED (%)	
		2012	2011
Controlled entities and their contribution to consolidated loss			
Parent Entity:			
- European Gas Limited	Australia		
Subsidiaries of European Gas Limited:			
- European Gas S.A.S.*	France	Nil	100
- European Gas Limited (UK)	United Kingdom	100	100
- Heritage Petroleum Ltd*	United Kingdom	Nil	100
Subsidiaries of European Gas Limited (UK):			
- European Gas S.A.S.*	France	100	Nil
- Heritage Petroleum Ltd*	United Kingdom	100	Nil

* During the year the Parent Entity sold its 100% owned interest in European Gas S.A.S. and Heritage Petroleum Ltd to European Gas Limited (UK).

Refer Note 6 – Discontinued Operation for further details.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

26. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events have occurred between the reporting date and the date of this financial report:

On 26 July 2012 European Gas Limited completed the implementation of a Share Buy-back offer (Share Buy-back offer was announced on 4 June 2012). Under the Offer the Company proposed to buy back up to 100% of the ordinary shares held in the capital of the Company by each shareholder of the Company who was eligible to participate in the Offer. For each share bought back, 1 ordinary share in European Gas Limited, a United Kingdom incorporated company (EGL UK), was offered as consideration.

Shareholder approval for the Buy-back Offer was obtained on 17 July 2012 and was subsequently completed on 26 July 2012. Pursuant to the buy-back European Gas Limited bought back and cancelled 221,615,657 of its own ordinary shares and as a result on 26 July 2012 only holds 25.45% interest in the ordinary share capital of EGL UK. Refer to Note 6 for discontinued operations.

Going forward the company will operate as holders of investments in EGLUK and also continue to earn royalty income from Buru.

Other than the above event there were no significant events that have occurred between the reporting date and the date of this financial report.

The directors of European Gas Limited declare that:

- (a) in the directors' opinion the financial statements and notes on pages 15 to 56 and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 9 to 13 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations).
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(B); and
- (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2012, required by Section 295A of the Corporations Act 2000.

Signed in accordance with a resolution of the directors

On behalf of the Board



Sebastian Hempel – Director

Dated at Perth, Western Australia this 28th day of September 2012.



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Independent Auditor's Report to the members of European Gas Limited

Report on the Financial Report

We have audited the accompanying financial report of European Gas Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 30 to 56.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of European Gas Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Deloitte

Opinion

In our opinion:

- (a) the financial report of European Gas Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of European Gas Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Chris Nicoloff
Partner
Chartered Accountants
Perth, 28 September 2012

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The directors are focused on fulfilling their responsibilities individually, and as a board, for the benefit of all the company's stakeholders. The board supports the "Principles of Good Corporate Governance and Best Practice Recommendations" established by the ASX Corporate Governance Council.

Given the size and structure of the company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, the board have adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The company's practices are broadly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the company's practices do not strictly comply.

The following section addresses the company's practices in complying with the principles.

Principle 1: Laying Solid Foundations for Management and Oversight

Role and Responsibilities of the Board

The board exists to lead and oversee the management and direction of the company.

After appropriate consultation with executive management the board:

- defines and sets its business objectives and subsequently monitors performance and achievements of those objectives;
- it oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and the review of executive management of the company;
- monitors and approves financial performance and budgets; and
- reports to shareholders.

Principle 2: Structuring the Board to Add Value

Composition of the Board

The relevant provisions in the Constitution and the Corporations Act determine the terms and conditions relating to the appointment and termination of Directors. All Directors, other than the Managing Director, are subject to re-election by rotation every three years.

The names of the directors of the company and their qualifications are set out in the Directors Report and on the Company's web site.

The composition of the board is determined so as to provide the company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfill the business objectives of the company.

The best practice recommendations are that a majority of the directors and in particular the chairperson should be independent. Directors are expected to bring independent views and judgement to the Board's deliberations.

During the relevant period there was at no time a majority of independent directors. One of the three Directors is considered by the Board to be independent, and as such the Company does not comply with Recommendation 2.1 of the Corporate Governance Council, which recommends that a majority of Board Members should be independent. The Board considers that both its structure and composition are appropriate given the size of the Company and that the interests of the Company and its shareholders are well met.

Independence of Chairman

The Chairman is not considered to be independent and therefore the Company has not complied with Recommendation 2.2 of the Corporate Governance Council.

Roles of Chairman and Chief Executive Officer

Subsequent to the end of the financial year the roles of Chairman and Chief Executive Officer have been separated, and accordingly the Company complies with Recommendation 2.3 of the Corporate Governance Council.

Nomination of Other Board Members

The board monitors its composition to determine if additional core strengths are required to be added to the board in light of the nature of the company's businesses and its objectives.

Independent Advice

Each of the directors is entitled to seek independent advice at the company's expense to assist them to carry out their responsibilities.

Principle 3: Promotion of Ethical and Responsible Decision-Making

Directors, officers, employees and consultants to the company are required to observe high standards of behavior and business ethics in conducting business on behalf of the company and they are required to maintain a reputation of integrity on the part of both the company and themselves. The company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Diversity Policy

The Board has implemented a Diversity Policy in line with the ASX's Corporate Governance guidelines. The Group believes that the promotion of diversity on its Boards, in senior management and within the organisation generally is good practice.

The Diversity Policy seeks to attract and retain people by promoting an environment where employees are treated with fairness and respect and have equal access to opportunities as they arise. Diversity within the workforce includes such factors as religion, race, ethnicity, language, gender, disability and age.

Gender Diversity

The Company, in keeping with the recommendations of the Corporate Governance Council provides the following information regarding the proportion of gender diversity in the organisation as at 30 June 2012:

	Male	Female	Total	Proportion female
Board	3	-	3	0%
Senior Management / contractors	3	-	3	0%
	<u>6</u>	<u>0</u>	<u>6</u>	<u>0%</u>

(Note subsequent to the end of the year the Company has shed a number of its staff following the completion of the buy back offer.)

CORPORATE GOVERNANCE STATEMENT

Measurable objectives

The recommendations of the Corporate Governance Council relating to reporting require a Board to set measurable objectives for achieving diversity within the organisation, and to report against them on an annual basis. The Company has implemented measurable objectives as follows:

Measurable Objective	Objective Satisfied	Comment
Adoption and promotion of a Formal Diversity Policy	Yes	The Company has adopted a formal diversity policy which has been made publicly available via the Company's website.
To ensure Company policies are consistent with and aligned with the goals of the Diversity Policy	Yes	The Company's selection, remuneration and promotion practices are merit based and as such are consistent with the goals of the Company's Diversity Policy.
To provide flexible work and salary arrangements to accommodate family commitments, study and self-improvement goals, cultural traditions and other personal choices of current and potential employees.	Yes	The Company does, where considered reasonable, and without prejudice, accommodate requests for flexible working arrangements.
To implement clear and transparent policies governing reward and recognition practices.	Yes	The Company grants reward and promotion based solely on merit and responsibility as part of its annual and ongoing review processes.

The Company has not implemented specific measurable objectives regarding the proportion of females to be employed within the organisation or implement requirements for a proportion of female candidates for employment and Board positions. The Board considers that the setting of quantitative gender based measurable targets is not consistent with the merit and ability based policies currently implemented by the Company.

The Board will consider the future implementation of gender based diversity measurable objectives when more appropriate to the size and nature of the Company's operations.

Trading in Company Securities

The Company encourages Directors and employees to adopt a long-term attitude to their investment in the Company's securities. All Directors and employees (including their immediate family or any entity for which they control investment decisions), must ensure that any trading in securities issued by the Company is undertaken within the framework set out in the Securities Trading Policy.

The Securities Trading Policy does not prevent Directors or employees (including their immediate family or any entity for which they control investment decisions) from participating in any share plan or share offers established or made by the Company. However, Directors or employees are prevented from trading in the securities once acquired if the individual is in possession of price sensitive information not generally available to all security holders.

In keeping with recent listing rule amendments, additional restrictions are placed on trading by Directors, Executives and other personnel as determined by the Chairman and Company Secretary from time to time ('Key Management Personnel').

Key management personnel must not deal in Company Securities at any time if in possession of any inside information relating to those securities.

In addition to the overriding prohibition against dealing in the Company's securities when a person is in possession of inside information, Key Management Personnel and their associated parties are at all times prohibited from dealing in the Company's securities during prescribed 'closed' periods. The Company has nominated closed periods to be during the week prior to the release of the Company's Quarterly Reports (including the Appendix 5B) unless exceptional circumstances apply.

The Securities Trading Policy also includes a clause prohibiting Directors and Executives from entering into transactions in associated products which operate to limit the economic risk of security holdings in the Company over unvested entitlements. In accordance with Listing Rules, a director must notify the ASX within 5 business days after any change in the Director's relevant interest in securities of the Company or a related body corporate of the Company.

A director must notify the Company Secretary in writing of the requisite information within 2 business days in order for the Company Secretary to make the necessary notifications to ASIC and ASX as required by the Corporations Act and the ASX Listing Rules.

Principle 4: Safeguarding Integrity in Financial Reporting

The Board does not have a separate Audit Committee with a composition as suggested by Recommendations 4.1, 4.2 and 4.3 of the Corporate Governance Council. The full Board carries out the function of an audit committee. The Board believes that the Company is not of a sufficient size to warrant a separate committee and that the full Board is able to meet objectives of the best practice recommendations and discharge its duties in this area. The relevant experience of Board members is detailed in the Directors' section of the Directors' Report.

Financial Reporting

The Board relies on senior executives to monitor the internal controls within the Company. Financial performance is monitored on a regular basis by the Chief Executive Officer who reports to the Board at the scheduled Board meetings.

Principle 5: Making Timely and Balanced Disclosure

The Board places a high priority on communication with Shareholders and is aware of the obligations it has, under the Corporations Act and ASX Listing Rules, to keep the market fully informed of information which is not generally available and which may have a material effect on the price or value of the Company's securities.

The Board requires that matters that a person could reasonably expect to have a material effect on the share price are announced to the ASX in a timely manner, where a decision is made not to notify the ASX of a particular event or development, the reasons for non-notification are determined by the board.

The company secretary, in consultation with the chief executive officer, is the person responsible for overseeing and co-ordination disclosure of information to the ASX as well as communicating with the ASX.

Principle 6: Respecting the Rights of Shareholders

The board's fundamental responsibility to shareholders is to work towards meeting the company's objectives so as to add value for them.

The board seeks to inform shareholders of all major developments affecting the company by:

- preparing half yearly and yearly financial reports;
- preparing quarterly cash flow reports and reports as to activities;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- hosting all of the above on the company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report together with notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the Company's affairs by attending the meeting in person or by proxy. Shareholders who attend the meeting are able to pose questions on the audit process and the financial statements directly to the independent auditor who attends the meeting for that purpose.

CORPORATE GOVERNANCE STATEMENT

Principle 7: Recognising and Managing Risk

The board has identified areas of significant business risk which are monitored on an ongoing basis including:

- Tenure to the Company's' assets and operations;
- Competent project and operational management;
- Occupational health and safety
- Environmental risks
- Comprehensive insurance where possible
- Sovereign risk
- Commodity price and foreign exchange

Whilst the Board as a whole is responsible for supervising the management of risks by the Company, it has delegated the responsibility for day to day risk management to the Managing Director and other senior management. The company has adopted procedures by which it identifies and manages those risks on a case by case basis.

The Company's risk management strategy is evolving and will be an ongoing process and it is recognised that the level and extent of the strategy will develop with the growth and change in the Company's activities.

CEO / CFO Written Statement

Consistent with the requirements of the Corporations Act and best practice recommendations, the person or persons fulfilling the functions of chief executive officer and chief financial officer are required to make a statement to the board that the company's financial reports present a true and fair view in all material respects of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Board also requires that the statement include an assurance that the declaration is founded on a sound system of risk management and internal control, and that the system is working effectively.

This statement has been received by the Board.

Principle 8: Remunerate Fairly and Responsibly

There is no formal remuneration committee. A commentary on remuneration policy and practices is set out in the remuneration report contained within the Directors' Report in the Annual Report.

The executive Directors and senior executives receive salary packages which may include performance based components designed to reward and motivate. Non executive Directors receive fees agreed on an annual basis by the Board. The maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. In determining the allocation the board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.

Table of Departures and Explanations (from the Recommendations of the ASX Corporate Governance Council)

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
1.1	There was no formalisation and disclosure of separate functions between the board and management during the reporting period.	A number of changes to Board composition occurred during the reporting period. The CEO had responsibility for day to day management of the company. The practices followed were compatible with the Principle. Subsequent to the end of the financial year the Board has appointed an Executive Director
2.1	A number of changes to Board composition took place during the year. However at no time were there a majority of independent directors.	Given the nature and size of the company, its business interests and the stage of development, the board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.
2.2	The Board does not have an independent chairperson.	The chairperson did not fulfill the requirements for independence – this will be reviewed during the following financial year.
2.4	A separate Nomination Committee has not been formed.	The board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict.
2.5	The Company has not had a formal process for the evaluation of the performance of the Board.	The Board is continuing to review options for a formal review process to be adopted.
3.1	No formal code of conduct has been established as to practices necessary to maintain confidence in the company's integrity or as to reporting and investigating unethical practices.	A formal code of conduct is being considered for implementation during the next financial year.
4.2 and, 4.3	The Company does not have an audit committee.	The full Board acts in the capacity of an audit committee. Given the size and composition of the board it is not possible to have an audit committee which meets the guidelines.
5.1	There is no written policy to ensure compliance with ASX Listing Rules disclosure requirements.	The company does not consider that a written policy is required at this time. This situation will be reviewed and amended to meet the company's increased activities and growth.

CORPORATE GOVERNANCE STATEMENT

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
7.1 and 7.2	There has been no written implementation of policy on risk oversight and management or for senior management to make statements to the board concerning those matters.	<p>Major business risks have been identified and the Board as a whole is responsible for supervising the management of those risks.</p> <p>The company has adopted procedures by which it identifies and manages those risks on a case by case basis, through the Managing Director and relevant senior executives.</p> <p>Given the nature and size of the company, its business interests and the active involvement of directors during the period under review, it had not been considered necessary to establish written policy in this area.</p> <p>However, the Company's risk management strategy is evolving and will be an ongoing process and it is recognised that the level and extent of the strategy will develop with the growth and change in the Company's activities.</p>
8.1	<p>No formal remuneration committee has been established.</p> <p>Non-executive directors have to date been eligible to participate in the company's Employee Share Option Plan (Incentive plan).</p>	<p>The Board will continue to review these matters.</p> <p>Given the size and involvement of the board in the company's management, the formation of a separate remuneration committee is not warranted.</p> <p>In order to preserve funds (associated with the payment of directors fees), and to attract and retain directors of sufficient caliber and standing, all directors are eligible to participate in the company's incentive plan, subject to prior shareholder approval to any grant made in accordance with the incentive plan.</p>

ASX SHAREHOLDER INFORMATION

Pursuant to the Listing Requirements of the Australian Stock Exchange Limited, the shareholder information set out below was applicable as at 16 October 2012.

(a) Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of shareholders
1 -1,000	62,841
1,001 -5,000	864,541
5,001 - 10,000	2,012,464
10,001 -100,000	13,546,953
More than 100,000	59,170,049
TOTALS	75,656,848

There were 222 shareholders holding less than a marketable parcel of ordinary shares.

(b) Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are listed below:

Shareholder Name	Ordinary Shares	
	Number	Percentage of Issued
JP Morgan Nominees Australia Limited	18,103,053	23.93
Flexiplan Management Pty Ltd	5,578,867	7.37
National Nominees Limited	3,588,228	4.74
McNeil Nominees Pty Limited	3,000,000	3.97
Maxigold Holdings Pty Ltd	2,601,126	3.44
Pershing Australia Nominees Pty Ltd	2,585,879	3.42
HSBC Custody Nominees (Australia) Limited	2,215,625	2.93
AMK Investments (WA) Pty Ltd	1,566,206	2.07
Mrs Carole Christine Rowan	1,375,000	1.82
Rocket Science Pty Ltd	1,229,000	1.62
NEFCO Nominees Pty Ltd	804,999	1.06
Norfolk Enchants Pty Ltd	800,000	1.06
Mr Russell John Bath and Mrd Diane Margaret Bath	750,000	0.99
Mr Robert Hanwright and Mrs Margaret Hanwright	575,000	0.76
BNP Paribas Noms Pty Ltd	562,626	0.74
Mr Kenneth Bruce Willimott	541,000	0.72
Mrs Suzanne Ferrier	502,200	0.66
Mr Mitchell James Voss and Mrs Linda Michelle Voss	500,001	0.66
Check-Kian Low	500,000	0.66
Mr Leonard Moore	481,250	0.64
TOTAL	47,860,060	63.26

ASX SHAREHOLDER INFORMATION

(c) Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who is known to hold 5% or more of the current issued capital) is set out below:

Shareholder Name	Issued Ordinary Shares	
	Number of shares	Percentage of shares
JP Morgan Nominees Australia Limited*	18,103,053	23.93
Susan Patricia Thomas	9,730,952	12.86

* Held non-beneficially – refer to the Company's announcements of 3 and 9 August and 10 October 2012.

(d) Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

(e) Unquoted Securities

Unquoted securities on Issue as at 16 October 2012:

OPTIONS ISSUED TO	GRANT DATE	NUMBER UNDER OPTION	EXERCISE PRICE	EXPIRY DATE
<i>Options issued as an Incentive:</i>				
Director Options	31 Dec 2010	3,000,000	\$0.50	31 Dec 2012
	31 Dec 2010	10,000,000	\$0.70	31 Dec 2012
	29 Nov 2011	6,000,000	\$0.50	31 Dec 2012

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