



ANNUAL REPORT

European Gas Limited
ABN 75 075 760 655

Corporate Directory

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BA (Hons), Masters Asset Management (Hons)
(Chairman)

Mr Peter Cockcroft

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Mr Rod Bresnehan

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INDEX

Managing Directors Report	3
Review of Operations	4
Corporate Governance Statement	12
Directors' Report	18
Remuneration Report	24
Auditors Independence Declaration	29
Statement of Comprehensive Income	30
Statement of Financial Position	31
Statement of Cash Flows	32
Statement of Changes in Equity	33
Notes to the Financial Statements	34
Directors' Declaration	75
Independent Auditors Report	76
Additional Information for Listed Public Company's	78

All the major IOCs, including ExxonMobil, Shell, Chevron, Total, ENI amongst many others, have taken significant unconventional gas positions in various countries, including France, Germany, Poland, Sweden and Ukraine, hoping to replicate the incredible growth seen in North America, particularly in shale gas. This vindicates the vision of EGL, who identified and put together a significant portfolio (approximately 2 million acres), and its role as a pioneer of the European conventional gas business.

MANAGING DIRECTOR'S REPORT

"I am pleased to present our 2010 Annual Report. This past year, even though it has been a year of transition for European Gas Limited, has seen a springboard of growth in the European unconventional gas sector.

All the major IOCs, including ExxonMobil, Shell, Chevron, Total, ENI amongst many others, have taken significant unconventional gas positions in various countries, including France, Germany, Poland, Sweden and Ukraine, hoping to replicate the incredible growth seen in North America, particularly in shale gas.

This vindicates the vision of EGL, who identified and put together a significant portfolio (approximately 2 million acres), and its role as a pioneer of the European unconventional gas business.

Indeed, European gas limited is one of the few (if not the only) companies that has a complete portfolio from production (in Northern France) through world class coal bed methane and shale gas exploration prospects.

This experience that we have gained as both a producer and an innovative explorer (drilling the first CBM multi-lateral wells in Europe), as well as the immense upside potential in our CBM and shale gas acreage, serves as a base to expand from our current activities that are predominantly in France, to other nearby European countries.

Not only have we identified shale gas potential within our existing portfolio, but we have also embarked on an aggressive new business initiative in both Coal bed methane and shale gas in other nearby countries that have the ingredients for success, namely, resource upside, proximity to infrastructure, and access to existing markets. We have put together a small, but experienced team that melds regional geological knowledge, with engineering and commercial background from both North America and Australia, the two "hotspots" in unconventional gas.

Our view is that is that unconventional gas has an important role to play in the European energy mix, as Europe is becoming increasingly dependent upon natural imports, both LNG and pipeline. This allows unconventional gas (both CBM and shale gas) to become a significant role in developing diversity in domestic gas supply. This is exacerbated by the ever decreasing role of coal as an energy source.

European Gas Limited is poised to grow in this exciting sector, with our objectives in the next year to increase our reserves position in our existing assets, as well as acquire three new exploration areas.

I hope that you will join me on this journey.

Regards,



PETER COCKCROFT

REVIEW OF OPERATIONS

SUMMARY

HYDROCARBON PROJECTS

FRANCE

The Company has a 100% interest in the following projects in France:

- Gazonor production and exploration project, northern France;
- Lorraine exploration and development project, north eastern France;
- Lons-le-Saunier exploration project, eastern France;
- Gardanne exploration project, southern France; and

During the year, the Company continued producing coal mine methane (“CMM”) from the Gazonor project and undertook coal bed methane (“CBM”) well testing, reserve and resource definition and other activities on its exploration projects in France. The Valenciennes and Sud-Midi exploration permits, which are adjacent to the production concessions at Gazonor, were awarded and an application for renewal of the Bleue Lorraine exploration permit was formally approved.

OTHER PROJECTS

The Company’s three permit applications in southern Tuscany, Italy (each 100%) remain subject to regional approval of environmental management plans. In Belgium, applications for the permits “Hainaut” and “Anderlues et Perennes” by the Benelux SA joint venture (50% European Gas) continue to be considered by the regional authorities.



REVIEW OF OPERATIONS

OPERATIONS

Project	Name	Area (km ²)	Status	Beneficial Interest	Date of Grant or Application
FRANCE					
Gazonor, Northern France	Poissonnière	699	Production Permit	100%	23/12/1992
	Désirée	68	Production Permit	100%	23/12/1992
	Valenciennois	423	Exploration Permit	100%	12/10/2009
	Sud Midi	929	Exploration Permit	100%	24/07/2010
Lorraine, North Eastern France	Lorraine	262	Exploration Permit	100%	21/05/2010
	Lorraine Sud	528	Exploration Permit	100%	07/12/2006
	Lorraine Nord	360	Exploration Permit Application	100%	30/05/2008
Gardanne, Southern France	Gardanne	365	Exploration Permit	100%	21/05/2010
Lons-le-Saunier, Eastern France	Lons-le-Saunier	3,795	Exploration Permit	100%	28/07/2007
BELGIUM					
Wallonia	Hainaut	443	Exploration Permit Application	50%	17/10/2008
	Anderlues et Peronnes	40	Production Permit Application	50%	17/10/2008
ITALY					
Tuscany	Sienna	478	Exploration Permit	100%	08/04/2004
	Belforte	511	Exploration Permit	100%	08/04/2004
	Cinigiano	564	Exploration Permit	100%	08/04/2004
TOTAL		8,577			

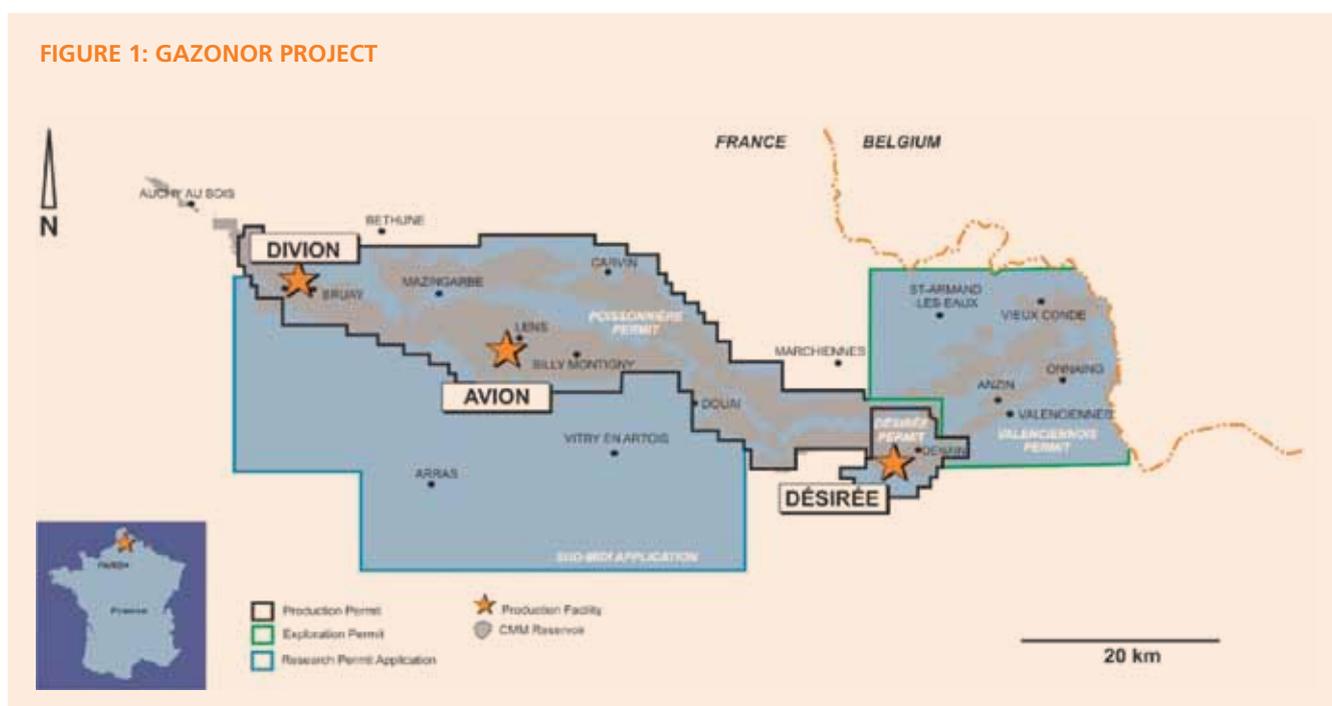
REVIEW OF OPERATIONS

FRANCE

GAZONOR, NORTHERN FRANCE (100%)

HISTORY

Gazonor holds the gas exploitation rights over the Poissonnière and Désirée production permits situated in the district of Nord-Pas de Calais in northern France, comprising a total area of 767 km². In addition two permits were granted for a total surface of 1,352 km² (Valenciennois and Sud Midi) dedicated for exploration of CMM and CBM (refer Figure 1).



Coal was mined in these districts for several hundred years, with peak production occurring in the 1960s and the last mines closing in 1992. The extraction of CMM from the permits commenced for industrial use in 1979 from three main processing sites, Avion and Divion in the Poissonnière permit and Désirée in the Désirée permit. On 28 December 2007, European Gas successfully acquired ownership of Gazonor S.A.

GAS PRODUCTION PROCESS DESCRIPTION

CMM is extracted in the Nord-Pas de Calais through degasification wells drilled into the old underground workings. The gas is extracted at low pressure, gathered and transported to the central processing facilities at Avion and Désirée where it is filtered, compressed, dehydrated and odorised. At each of the processing facilities the gas volumes are measured and gas compositions are determined as the gas is delivered to sales pipelines.

At the Avion site, the gas is compressed to about 6,700 kilo pascal gauge ("kpag") for supply of gas under a sales agreement with Total Gas and power. At the Désirée site, the gas is compressed to between 300 and 350 kpag for supply of gas under a sales agreement with a local industry. Contract was ended June 30th in order to prepare for electricity projects.

REVIEW OF OPERATIONS

RESERVE AND RESOURCE ESTIMATES

Certified CMM Reserve Estimates as at July 2008

		Bm ³	Bcf	PJ
Gazonor	1P	1.3	46	49
Gazonor	2P	3.7	131	140
Gazonor	3P	10.1	357	380

CBM Resource Estimates as at November 2009

	Bm ³	Bcf	PJ
Gazonor	296	10450	11080

The resource estimates cover the Poissonnière and Désirée production permits but exclude reserves and potential resources within areas influenced by mining. The Valenciennois and Sud Midi exploration application areas are not included in the resource estimates.

The estimates were conducted by the European Gas technical group under Society of Petroleum Engineers ("SPE") and Petroleum Resource Management System ("PRMS") guidelines. The study provides the basis for the planning and commencement of appraising the resources through to reserve categories and the assessment of development and production options.

Due to the nature and distribution of CBM accumulations at Gazonor there is a higher probability of converting resources to reserves, and of converting 3P reserves to 2P reserves, than in conventional gas accumulations. The Company is confident that over time it will be possible to continue to mature its reserve position in this manner. The present production of CMM and the understanding of the Company's 1P, 2P and 3P reserves position, combined with significant CBM resources, provide the opportunity for appraisal and development of the Gazonor asset.

PRODUCTION AND SALES

Gas production and sales totaled 321 GWh (1.2 PJ) at an average price of €16.65 / MWh (€4.62 / GJ) generating sales revenue of €5,350,546.

DEVELOPMENT

The optimisation of CMM production at Gazonor is a key element; electricity production and gas injection enhancement are the focus for the near future. Our generation will allow a more evenly distributed continuous cash flow over the period, to mitigate seasonal variations.

ELECTRICITY DEVELOPMENT

During the 2010 financial year the Company applied for a 'feed in tariff' linked to the installation of electricity production facilities at several sites at Gazonor. A consideration in the Study was to enhance the recovery ratio of the gas and the benefit for Safety and Environment, so the business model is to implement electricity production in order to have Gazonor CMM producing:

- 22.5 MWe based on feed in tariff
- 15 to 25 MWe on peak pricing

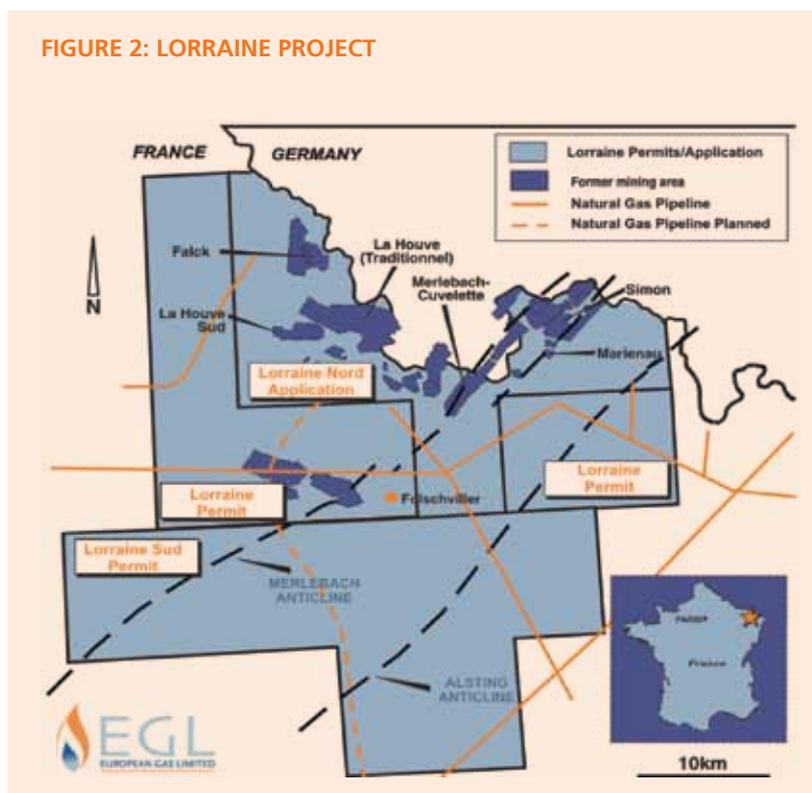
OPERATIONAL IMPROVEMENTS

Recent improvement is allowing the enhancement of summer production with new outlet for dilution of CMM into the gas grid. This will allow additional production for gas.

Since March 2010 Operational and Administrative Crew is located on Avion site, in order to improve the operation management. Outcomes are clearly cost reduction and improvement on daily operations.

REVIEW OF OPERATIONS

LORRAINE NORTHEASTERN FRANCE (100%)



EGL holds a 100% interest in two permits, covering 788km² of the Lorraine Basin. In May 2010, the company received notification of renewal of the Bleue Lorraine exploration permit which, after renewal, covers an area of 262km² and is valid up to 30th November 2013. The Bleue Lorraine Sud permit was awarded in 2007 and is valid until 2012. In addition, the company has submitted an application for an additional 360km² (refer Figure 2). The Lorraine Basin has historical coal production in excess of 850 million tonnes. The coal seams within the Basin are of Carboniferous age and are characterised as thick gassy high ranking coals. The principal targets in the Lorraine project area are CBM and tight gas.

Historical drill hole and geological databases from many years of mining are a valuable source of detailed information on the Lorraine coals. Over 600 stratigraphic wells have been drilled in the Basin with many of the intercepts being tested for methane content. In some parts of the basin there is reasonably good existing seismic coverage.

Work on the Lorraine CBM project during 2010 focussed on detailed mapping in prospective areas using mine exploration and seismic data together with the resource estimates prepared by the Company in 2009. Exploration and evaluation work in 2010 included the continuation of testing the Folschviller 2 well.

In the 2008 Folschviller 2 well a total of 433 metres of coal and 367 metres of gassy sediments were drilled in two laterals and two sidetracks. Production testing on the upper lateral commenced in 2008 was continued in 2009-2010 and further testing on this lateral is planned. In December 2009 the well was reconfigured to allow testing of the lower lateral in the first half of 2010.

The test program is designed to gather as much information as possible from the well for evaluation of reservoir characteristics. Results to date indicate that the coal exposed in the upper lateral is wet and tight and that the coals can be de-watered to the desorption pressure. In the lower lateral a fractured zone was identified while drilling, potentially indicating a zone of higher permeability. This zone was tested in the first half of 2010 and the Company has concluded that the geological environment within the Lorraine area has areas of natural fracturing and this was encountered in the lower lateral. In this instance the fractures may be in communication with the overlying aquifers system or indirectly in communication with the aquifer through the abandoned mine workings. The company is encouraged by the very existence of such fractures, and that they may provide a significant productive capacity in the other identified areas not in connection with flooded mine workings.

REVIEW OF OPERATIONS

Results from these tests have been incorporated into preliminary designs and evaluations of a lateral drainage strategy for development of the Lorraine coals.

The Company remains cautiously optimistic that the very thick coals, high gas contents and reservoir characteristics identified at Folschviller may be present in several blocks in the Lorraine project area and that these blocks may be amenable to a commercial development. A detailed technical review of the results to date and further testing are planned for the second half of 2010.

Evaluation of the Alsting anticline structure in the east of the Lorraine permit has continued and a seismic program has been proposed for part of the area. This anticlinal structure was explored with the Diebling 1 well drilled by the Company in 2007. The seams observed in the Diebling well are slightly higher rank coals than those at Folschviller and gas content measurements are also higher. The Alsting anticline is a target for exploration and implementation of a multi well, multilateral development due to its higher gas content and potentially higher permeability which may be correlated with coal maturity (rank) and structural deformation. Evaluation of natural fracturing capacity is a primary study.

The Lorraine Sud permit is adjacent to and south of the Lorraine permit. The area contains the southern extension of the Alsting anticline and other anticlinal axes which in places are at depths suitable for CBM development. Analysis of the structure as exhibited on the seismic data shows that there is a high probability of structurally enhanced permeability in the coals and other sediments.

RESOURCE ESTIMATES

CBM Resource Estimates as at October 2008

	Bm3	Bcf	PJ
Lorraine	54	1899	2010
Lorraine Sud	50	1782	1890
TOTAL	104	3681	3900

JURA (LONS-LE-SAUNIER), EASTERN FRANCE (100%)

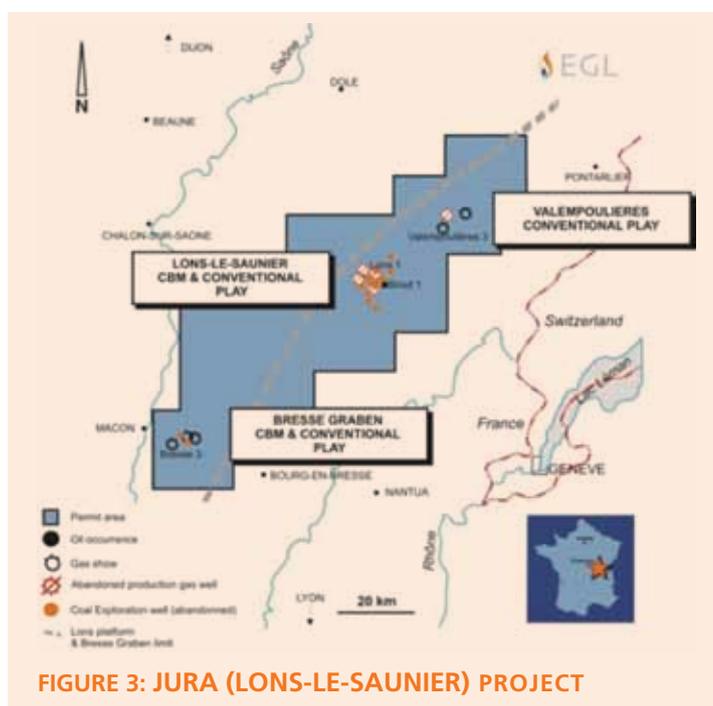


FIGURE 3: JURA (LONS-LE-SAUNIER) PROJECT

The Jura permit is approximately centred on the town of Lons-le-Saunier, situated close to the French-Swiss border. The permit area covers the central part of the northeast to southwest oriented Basin which is approximately 250km in length with the width varying between 30km and 60km (refer Figure 3).



REVIEW OF OPERATIONS

EXPLORATION AND DEVELOPMENT

The 3,795km² Jura permit contains an undeveloped coal-field, two historically produced conventional natural gas fields and several other gas and oil shows. Re-evaluation of seismic and other data indicates potential for additional conventional gas accumulations as well as for gas resources within the previously exploited areas.

During the period under review the potential for unconventional gas and oil resources in France has been recognised by industry and large new exploration permits have been acquired by several operators. The Company's acreage in Jura is now adjacent to an area of significant interest for unconventional gas exploration.

In the first half of 2010 a detailed review of the property identified a need for additional study of available data on the historically produced fields and in parts of the property which are prospective for conventional and unconventional resources.

Conventional oil and gas deposits and gas bearing formations are present above the coals in the Lons le Saunier area. Previous coal exploration by Charbonnage de France identified an in-situ tonnage of 370 million tonnes of gassy coal over a central area of 32km². This estimate was based on 29 wells (approximately 31,000 metres drilled) in the vicinity of the town of Lons-le-Saunier. The lateral extent of the coal measures is undefined, however at Bresse some 70km south west of Lons-le-Saunier, an oil exploration well intersected coal measures of similar age. Structural mapping, using re-processed seismic and well information, indicates that the coals may be present in areas not explored by Charbonnages de France. The maximum net coal thickness at Lons-le-Saunier is approximately 18 metres while at Bresse, a net coal thickness of 15 metres was intersected. The coals are medium to high volatile bituminous in rank.

GARDANNE, SOUTHERN FRANCE (100%)

European Gas has a 100% interest in the Gardanne exploration permit. During the period the Company entered into an option agreement to farm-out the property, the option was not exercised and the agreement expired at the end of calendar year 2009. In the first half of 2010 the exploration permit was renewed.

EXPLORATION AND DEVELOPMENT

While the property was subject to the farm-out agreement option a re-evaluation of the area was carried out. The Gardanne block, initially acquired for CMM as well as CBM potential, covers abandoned mine workings which have been allowed to flood as part of the safe abandonment plan implemented by the authorities. At the time of the review the level of water in the mines suggested that CMM production was unlikely to be feasible in the future. As a consequence of this finding the Company now regards the Gardanne project as primarily a CBM exploration opportunity.

Lands surrounding the Gardanne block have been identified in the recent literature as having potential for unconventional gas. Large exploration permits or permit applications almost completely surround the Company's land position.



REVIEW OF OPERATIONS

BELGIUM

BELGIUM JOINT VENTURE (50%)

In financial year 2008 the Company entered into an agreement with Transcor Astra Group ("Transcor"), a subsidiary of Compagnie Nationale à Portefeuille S.A. ("CNP") for the creation of a new joint venture company, European Gas Benelux S.A. ("Benelux JV").

Benelux JV was created for the purposes of securing title, exploring, developing, extraction and marketing of hydrocarbons including CBM, CMM and conventional oil and gas within Belgium, the Netherlands and Luxembourg.

Benelux JV ownership is 50% European Gas and 50% Transcor, with European Gas as the operator.

During the 2009 financial year, the Benelux JV applied to the Wallonia Government for a hydrocarbon permit "Hainaut" covering 443km². The application covers the immediate southern extension of the Wallonia Coal Basin and historical coal mining region.

The Basin is the eastern extension of the Nord-Pas de Calais Basin in France in which the Company's Gazonor project is situated. A production permit application was also submitted for "Anderlues et Peronnes" which covers 40km².

The principal target for the Benelux JV is CBM and CMM.

ITALY

TUSCANY (100%)

Three permit areas covering 1,553km² in Southern Tuscany, Italy were granted during the 2007 financial year and are subject to the acceptance of submitted preliminary Environmental Impact Studies by the Regione Toscana.

The permits are each for a period of six years and give the holder exclusive rights for the exploration and production of hydrocarbons. All three areas are prospective for CBM.

Initial work will commence upon formal notification that the studies have been accepted.

AUSTRALIA

The Company holds a 2% and 3% Net Well Head royalty over 28,701km² and 1,470km² respectively in the Canning Basin, Western Australia. The permits are held by Buru Energy Limited.



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 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.

The composition of the Board has changed during the year under review and again subsequent to year end. During the relevant period there was at no time a majority of independent directors.

One of the four Directors are 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.



CORPORATE GOVERNANCE STATEMENT

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.

Directors are required to make disclosure of any share trading. The company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the company. That is information which a reasonable person would expect to have a material affect on the price or value of the company's shares. It is recommended that an officer discuss any proposal to acquire or sell shares with the directors or the company secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the company secretary who makes disclosure to Australian Stock Exchange (ASX).



CORPORATE GOVERNANCE STATEMENT

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 Managing Director 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 executive directors, 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.

CORPORATE GOVERNANCE STATEMENT

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 managing director had responsibility for day to day management of the company. The practices followed were compatible with the Principle.
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 doesn't fulfill the requirements for independence, however the Board believes he meets the needs of the Company at its present stage of development.
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.	The composition of the board and executive have changed during and subsequent to year end. However substantive director appointment letters including disclosure obligations have been instigated. A formal code of conduct will be considered for implementation during the next financial year.
3.2	No written policy concerning trading in the company securities by directors, officers or employees has been disclosed.	Section 3 outlines the policy adopted by the board and management. Following recent changes in the requirements of the ASX Corporate Governance Council's guidelines a detailed procedure is being formulated for approval by the Board.
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.

CORPORATE GOVERNANCE STATEMENT

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
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.
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> <p>The Board will continue to review these matters.</p>
8.1	No formal remuneration committee has been established.	Given the size and involvement of the board in the company's management, the formation of a separate remuneration committee is not warranted.
8.2 and 8.3	Non-executive directors have to date been eligible to participate in the company's Employee Share Option Plan (Incentive plan).	<p>The company has disclosed its remuneration policy in the remuneration report of the Directors Report as required by law and accounting standards.</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>

DIRECTORS' REPORT

The directors of European Gas Limited ("European Gas") present the following report on the company and its controlled entities for the financial year ended 30 June 2010.

1. PRINCIPAL ACTIVITIES

The principal activities of the Consolidated entity during the course of the financial year included the gas production in France and the exploration and evaluation of hydrocarbon projects including coal bed methane and coal mine methane projects in France and elsewhere in Europe.

2. REVIEW OF OPERATIONS

HYDROCARBON PROJECTS, EUROPE

France

The company has a 100% interest in the following projects areas in France:

- Gazonor production project, northern France;
- Lorraine exploration and development project, north eastern France;
- Lons Le Saunier exploration project, eastern France;
- Gardanne exploration project, southern France; and

During the financial year the company continued gas production operations at the Gazonor Project and completed various optimisation works. Pre-feasibility works for the development of electricity projects were also completed.

The drilling and coal bed methane production test program continued at Lorraine while evaluation programs continued at Lons le Saunier and Gardanne.

Reserves and Contingent Resources are shown in the following tables.

Certified Reserves as at July 2008

		Billions of Cubic Metres (Bm3)	Billions of Cubic Feet (Bcf)	Petajoules (PJ)
Gazonor	1P	1.3	46	49
Gazonor	2P	3.7	131	140
Gazonor	3P	10.1	357	380

Contingent Resources as at March 2009

		Billions of Cubic Metres (Bm3)	Billions of Cubic Feet (Bcf)	Petajoules (PJ)
Gazonor	C1 + C2 + C3	231	8150	8642
Lorraine	C1 + C2 + C3	104	3691	3900
TOTAL		335	11841	12542

DIRECTORS' REPORT

ITALY

On a 100% basis, the company has been offered three permits in southern Tuscany subject to the approval of submitted environmental management plans. As at the end of the financial year, approvals remained pending.

BELGIUM / NETHERLANDS / LUXEMBOURG

European Gas and Compagnie Nationale à Portefeuille S.A. through its subsidiary Transcor Astra Group operate a Joint Venture company ("European Gas Benelux S.A.") for the purposes of securing title, exploring and developing hydrocarbon projects in Belgium, The Netherlands and Luxembourg.

AUSTRALIA

The company holds royalty interests covering 30,171 square kilometres in the Canning Basin, Western Australia.

3. OPERATING RESULTS

The consolidated loss of the consolidated entity after providing for income tax amounted to €7,215,770 (2009: €5,545,254).

4. DIVIDENDS

No dividend has been paid by the company during the financial year ended 30 June 2010, 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 7 July 2010, the board appointed Mr Peter Cockcroft to the position of Managing Director.
- During September 2010 25,000,000 unlisted options, with an exercise price of 12 cents, were exercised in accordance with their terms.

6. LIKELY DEVELOPMENTS

The Consolidated entity will continue to pursue policies which seek to provide sound opportunities for future development during the next financial year.

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 24 to 28 and forms part of the Directors' Report for the financial year ended 30 June 2010.

DIRECTORS' REPORT

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.

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 1 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 serves on the board of several listed and unlisted companies in China and the US.
Mr Peter Cockcroft Managing Director (appointed 7 July 2010)	<p>Peter is currently the non-executive Chairman of Blue Energy Limited (ASX: BUL), a coal seam gas company based in Queensland, Australia. He is also the Chairman of a publicly-listed coal company in Indonesia.</p> <p>Peter brings a unique blend of international gas development, public company and unconventional gas experience to the Company.</p> <p>He has worked for both majors and independents in executive roles and is renowned for his ability to bring international petroleum projects (especially gas) to commercial fruition. He is a Life Member of the Society of Petroleum Engineers (SPE), was a distinguished Lecturer for SPE on Risk, a Life Fellow of the Royal Geographical Society, a Life member of the South East Asian Petroleum Exploration Society (SEAPEX), a Certified Petroleum Geologist of the American Association of Petroleum Geologists, a Fellow of the Association for Risk Management, as well as authoring more than forty technical and commercial papers. He has been on the boards of companies in the U.S., India, Kuwait, China, as well as Australia and Indonesia. He is a Graduate of the Australian Institute of Company Directors and a member of the Institute of Directors. He was recently a member of the AIPN LNG GSA drafting committee.</p>
Mr Rod Bresnehan Non-executive Director (appointed 1 September 2009)	Mr Bresnehan has 35 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 Non-executive Director (appointed 1 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

DIRECTORS' REPORT

Mr Gauthier De Potter
Non-executive Director
(resigned 9 February 2010)

Mr De Potter is based in Brussels and is currently an Executive Director of Transcor Astra Group ("Transcor"). Mr De Potter is a qualified Electro-Mechanical Engineer and Certified Financial Analyst. He has held senior positions at JP Morgan, Tractebel (now GDF-Suez) and Bechtel Enterprises/InterGen.

Mr. Anthony J McClure BSc
Managing Director
(appointment terminated
25 October 2009)

Geologist with over 20 years technical, management and financial experience in the resources sector.

**Mr. Alan J Flavelle BSc FAIMM
MAIG, MSPE**
Executive Director
(resigned 1 September 2009)

Mr Flavelle is a geophysicist with over 40 years experience in the minerals, oil exploration and production industries.

**Mr. Terence V Willsteed
BE(MIN) Hons BA FAusIMM MSME**
Non-executive Director
(resigned 01 September 2009)

Mr Willsteed is a consulting mining engineer with over 40 years experience in the mining, exploration, coal and oil shale industries in Australia and overseas.

The following person held the position of company secretary at the end of the financial year:

Mr. Mark Pitts CA
Company Secretary

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		Audit Committee meetings	
	A	B	A	B
Peter Cockcroft *	-	-	-	-
Rod Bresnehan	13	14	1	1
Sebastian Hempel	14	14	1	1
Julien Moulin	13	14	1	1
Gauthier De Potter	12	14	1	1
Anthony J McClure	11	11	1	1
Alan J Flavelle	3	3	-	-
Terence V Willsteed	3	3	-	-

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.

* Appointed subsequent to the reporting date of 30 June 2010.

DIRECTORS' REPORT

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
Peter Cockcroft	-	-
Rod Bresnehan	-	-
Sebastian Hempel	-	-
Julien Moulin	-	-

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
Consultant Options	15 April 2008	2,000,000	\$2.50	15 April 2012
Total		2,000,000		

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.

During the year 7,500,000 unlisted options lapsed in accordance with their terms.

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.

DIRECTORS' REPORT

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.

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 PKF, the company's previous auditors, have performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditors and has formally resolved that it is satisfied that the provision of those non-audit services during the year by the auditors is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- the other services provided relate to taxation advice which is considered not to affect the independence of the company auditors;
- all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the board to ensure they do not affect the integrity and objectivity of the auditor; and
- the non-audit services provided do not compromise the general principles relating to auditor independence as set out in Code of Conduct **APES 110: Code of Ethics for Professional Accountants** issued by the Accounting Professional and Ethical Standards Board.

Details of the amounts paid to the auditor of the company and their related practices for audit and non-audit services provided during the year are set out in Note 19 of the financial statements.

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 29 and forms part of the directors' report for the year ended 30 June 2010.

Signed in accordance with a resolution of the Board of Directors



Peter Cockcroft – Managing Director

Dated at Perth, Western Australia this 30th day of September 2010



REMUNERATION REPORT

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 note 14 of the director’s report. Any grant of options to directors requires prior shareholder approval.

At the Annual General Meeting in November 2006 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

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	2010	2009	2008	2007	2006
Net profit (loss) €'000	(7,216)	(5,545)	(3,757)	(1,172)	(423)
Earnings/(loss) per share (€ cents per share)	(3.44)	(2.78)	(1.89)	(0.66)	(0.29)
Dividends paid (€ cents per share)	Nil	Nil	Nil	Nil	Nil
Change in share price – increase/(decrease) (AU\$ cents per share)	6.0	(55.5)	(30.0)	61.0	33.5
Return of capital	Nil	Nil	Nil	Nil	Nil
Net cash from/(used in operations) €'000	(3,036)	(1,697)	(607)	(1,306)	(995)
Market capitalisation (undiluted) at 30 June €'000	29,862	16,035	84,377	123,805	36,320

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 July 2010 the company entered into an agreement with Mr Peter Cockcroft to provide the services of Managing Director and CEO of the company.

The agreement between Peter Cockcroft and European Gas has the following key terms:

- the engagement is for a two (2) year term commencing 15th of July 2010;
- remuneration comprises an annual base salary of USD \$200,000 till the end of December 2010 and a minimum annual base salary of USD \$300,000 starting 1st of January 2011;
- 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 Cockcroft, for other than termination due to misconduct.

In addition to the above terms, the Directors have resolved, subject to shareholder approval, to provide Mr Cockcroft with an equity participation incentive, details of which are set out below:

Subject to the Company obtaining the requisite approvals, the Company will grant 14,500,000 Options to Peter in three tranches, each to acquire one fully paid ordinary share in the Company (Options) with the following principal terms:

- the option fee will be nil;
- the Options are exercisable at any time during the exercise period; and
- on exercise of the Options, the shares issued will rank equally with all other ordinary shares on issue.

REMUNERATION REPORT

The 3 tranches are set as follows:

Number of options	Expiry Date	Exercise Price
1, 500, 000	31 December 2011	AUD 0.35
3, 000, 000	31 December 2012	AUD 0.50
10, 000, 000	31 December 2012	AUD 0.70

In January 2008 the company entered into a service agreement with Endeavour Corporate Pty Ltd, a company controlled by the company secretary, Mr. Mark Pitts. 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.

Directors & Executives Disclosures

Remuneration of directors and executives by the consolidated entity

Directors and Key Management Personnel

Julien Moulin	Chairman (appointed 1 September 2009)
Peter Cockcroft	Managing Director (appointed 7 July 2010)
Rod Bresnehan	Non-executive Director (appointed 1 September 2009)
Sebastian Hempel	Non-executive Director (appointed 1 September 2009)
Gauthier De Potter	Non-executive Director (resigned 9 February 2010)
Anthony J McClure	Managing Director (appointment terminated 25 October 2009)
Alan J Flavelle	Executive Director (resigned 1 September 2009)
Terence V Willstead	Non-executive Director (resigned 1 September 2009)

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

Mark Pitts	Company Secretary
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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 the nature and amount of the elements of their remuneration for the year ended 30 June 2010.

REMUNERATION REPORT

Short term benefits

	Year	Salary & fees €	Non-monetary Benefits €	Termination Benefits €	Total €	Proportion of remuneration performance related %	Value of Options as a proportion of remuneration %
Directors							
Julien Moulin	2010	33,335	-	-	33,335	-	-
(appointed 01/09/2010)	2009	-	-	-	-	-	-
Rodney Bresnehan	2010	34,045	-	-	34,045	-	-
(appointed 01/09/2010)	2009	-	-	-	-	-	-
Sebastian Hempel	2010	33,728	-	-	33,728	-	-
(appointed 01/09/2010)	2009	-	-	-	-	-	-
Gauthier De Potter	2010	23,712	-	-	23,712	-	-
(resigned 09/02/10)	2009	14,565	-	-	14,565	-	-
Anthony J McClure	2010	34,260	100,890	250,613	385,763	-	-
(appointment terminated 25/09/09)	2009	251,868	114,873	-	366,740	-	-
Alan J Flavelle	2010	18,507	-	42,432	60,939	-	-
(resigned 01/09/10)	2009	108,281	-	-	108,281	-	-
Terence V Willstead	2010	6,858	-	-	6,858	-	-
(resigned 01/09/10)	2009	35,770	-	-	35,770	-	-
Mike Atkinson	2010	-	-	-	-	-	-
(resigned 28/05/2009)	2009	11,334	-	-	11,334	-	-
Nicholas Farr-Jones	2010	-	-	-	-	-	-
(resigned 28/11//2008)	2009	7,437	-	-	7,437	-	-
Total, all directors	2010	184,445	100,890	293,045	578,380	-	-
	2009	429,255	114,873	-	544,127	-	-
Executives							
Mark Pitts	2010	41,618	-	-	41,618	-	-
	2009	32,265	-	-	32,265	-	-
Total, all executives	2010	41,618	-	-	41,618	-	-
	2009	32,265	-	-	32,265	-	-

REMUNERATION REPORT

Equity Instruments

Analysis of movements in shareholdings

	Balance as at 1 July 2009	Acquired during the year	Disposed during the year	Balance as at 30 June 2010
Directors				
Julien Moulin	-	-	-	-
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Company Executives				
Mark Pitts	-	-	-	-
	-	-	-	-

Analysis of movements in options

	Balance as at 1 July 2009	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 30 June 2010
Directors					
Julien Moulin	-	-	-	-	-
Rodney Bresnehan	-	-	-	-	-
Sebastian Hempel	-	-	-	-	-
Company Executives					
Mark Pitts	-	-	-	-	-
	-	-	-	-	-

AUDITORS INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Fax: +61 (8) 9365 7001
www.deloitte.com.au

The Board of Directors
European Gas Limited
Unit 4, Level 1, Lincoln House
4 Ventnor Avenue
West Perth WA 6005

30 September 2010

Dear Board Members

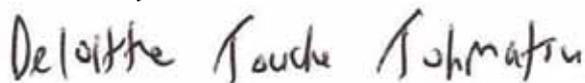
European Gas Limited

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.

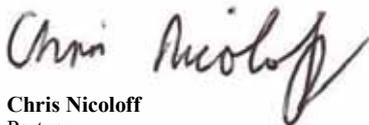
As lead audit partner for the audit of the financial statements of European Gas Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2010

		Consolidated Entity	
		2010	2009
		€,000	€,000
Continuing operations	Note		
Sales revenue		5,351	8,119
Cost of sales		(4,179)	(4,678)
Gross profit		1,172	3,441
Other income from ordinary operations:			
Finance Income	2	5	29
Royalty Income		24	23
Write back of provision		2,977	-
Other income		57	27
		3,063	79
Other expenses from ordinary operations:			
Administrative expenses		(2,222)	(1,839)
Professional and consultancy fees		(849)	(1,359)
Other field expenses		(1,247)	(1,377)
Depreciation and amortisation expenses		(2,886)	(1,168)
Finance Expense	2	(2,934)	(2,709)
Loss on sale of plant and equipment		-	(4)
Loss on sale of available for sale financial assets		(16)	(29)
Exploration write off		(420)	-
Impairment of available for sale financial assets		(63)	(237)
Other expenses from ordinary activities		(352)	(357)
		(10,989)	(9,079)
Loss before income tax		(6,754)	(5,559)
Income tax expense	5	(462)	14
Net loss for the period		(7,216)	(5,545)
Other comprehensive income			
Available for sale financial assets		27	-
Other comprehensive loss, net of tax		27	-
Total comprehensive loss attributable to members of the parent entity		(7,189)	(5,545)
Basic and diluted loss per share (cents per share)	23	(3.44)	(2.78)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

For the Year Ended 30 June 2010

		Consolidated Entity	
		2010	2009
		€ ,000	€ ,000
Current Assets			
Cash and cash equivalents		1,549	2,320
Trade and other receivables	3	1,233	1,117
Prepayments		68	60
Inventories		257	287
Total Current Assets		3,107	3,783
Non-Current Assets			
Available for sale financial assets	4	138	255
Intangible assets	6	24,078	24,021
Property, plant and equipment	7	3,409	3,256
Exploration & evaluation expenditure	8	26,838	26,999
Total Non-Current Assets		54,463	54,532
Total Assets		57,570	58,315
Current Liabilities			
Trade and other payables	10	1,845	1,361
Current tax liability		431	8
Interest bearing loans and borrowings	11	39,193	932
Total Current Liabilities		41,469	2,301
Non- Current Liabilities			
Interest bearing loans and borrowings	11	-	35,092
Provisions	12	3,558	3,029
Total Non- Current Liabilities		3,558	38,121
Total Liabilities		45,028	40,422
Net Assets		12,542	17,893
Equity			
Contributed equity	13	32,719	31,281
Reserves	15	652	1,657
Accumulated losses		(20,829)	(15,045)
Total Equity		12,542	17,893

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

As At 30 June 2010

	Note	Consolidated Entity	
		2010 €,000	2009 €,000
Cash Flows From Operating Activities			
Receipts from customers		5,281	8,280
Payments to suppliers and employees		(7,318)	(8,687)
Borrowing costs		(16)	(19)
Interest paid on convertible notes		(775)	(1,088)
Interest received		5	52
Income taxes paid		(213)	(235)
Net Cash Used In Operating Activities		(3,036)	(1,697)
Cash Flows From Investing Activities			
Purchase of plant & equipment		(80)	(77)
Expenditure on exploration		(798)	(4,806)
Proceeds from sale of equity investments		21	157
Net Cash Used in Investing Activities		(857)	(4,726)
Cash Flows From Financing Activities			
Proceeds from issue of shares		1,437	-
Proceeds from borrowings		1,731	-
Net Cash Provided By Financing Activities		3,168	-
Net Decrease In Cash Held		(725)	(6,423)
Effect of translation of foreign currency		(46)	(73)
Cash at 1 July 2009		2,320	8,816
Cash at 30 June 2010		1,549	2,320

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2010

CONSOLIDATED	Issued capital €,000	Option Valuation Reserve €,000	Foreign Currency Translation Reserve €,000	Available for sale investments reserve €,000	Accumulated losses €,000	Total €,000
At 1 July 2008	31,281	1,693	(36)	-	(9,500)	23,438
Loss for the period	-	-	-	-	(5,545)	(5,545)
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(5,545)	(5,545)
At 30 June 2009	31,281	1,693	(36)	-	(15,045)	17,893
At 1 July 2009	31,281	1,693	(36)	-	(15,045)	17,893
Loss for the period	-	-	-	-	(7,216)	(7,216)
Other comprehensive income for the year	-	-	-	27	-	27
Total comprehensive income for the year	-	-	-	27	(7,216)	(7,188)
Recognition of share based payments	-	401	-	-	-	401
Transfer to retained earnings*	-	(1,433)	-	-	1,433	-
Issued shares	1,646	-	-	-	-	1,646
Transaction costs of share issue	(209)	-	-	-	-	(209)
At 30 June 2010	32,719	661	(36)	27	(20,829)	12,542

* Balance in option valuation reserve has been transferred to retained earnings 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.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

1 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

A REPORTING ENTITY

European Gas Limited (the 'company') is a company domiciled in Australia. The address of the company's registered office is Suite 4, 4 Ventnor Avenue, West Perth Western Australia 6005, Australia. The consolidated financial statements of the company as at and for the year ended 30 June 2010 comprise the company and its subsidiaries (together referred to as the 'Group') and the Groups 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 30 September 2010.

B BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The financial report is a 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 represented using the Euro currency denomination (€).

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

GOING CONCERN BASIS OF PREPARATION

The consolidated entity incurred a loss after tax for the period of €7,216,000 (2009: €5,545,000), had net cash outflow of €725,000 (2009: €6,423,000 and had a deficit of net current liabilities as at 30 June 2010 of €38,362,000 (2009: surplus €1,482,000).

In addition as discussed in Note 16 the parent entity (**Company**) incurred a loss for the period of €3,081,000 (2009: €3,042,000) and had a deficit of net current liabilities as at 30 June 2010 of €38,805,000 (2009: €889,000).

The deficit has arisen as the Convertible Notes ("Notes") amounting to €38,959,000 are repayable as at 31 December 2010. Based on the share price of the company the Note holder has indicated that they will not be converting the Notes into equity of the Company.

The consolidated entity remains largely an exploration business and as a result, for the short term at least, will continue to have net cash outflows from operations.

These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Company and the consolidated entity' to continue as going concerns.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

The financial report has been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business. The Directors believe that to be appropriate for the following reasons:

- At the date of this report the Directors remain actively engaged in negotiations with several parties for the disposal of all or part of the consolidated entity's interest in Gazonor S.A. As at the date of this report, the Company is in receipt of an offer for the sale of Gazonor S.A. The draft terms of the offer would ensure the Notes would be settled in their entirety by 31 December 2010.
- The Directors anticipate reaching a commercially acceptable outcome and executing an agreement (which may require shareholder approval) by 30 November 2010;
- The Directors have prepared cash flow forecasts that if the disposal of the consolidated entity's interest in Gazonor S.A. is not completed indicate that the company and the consolidated entity will have sufficient cash flows to meet all commitments and working capital requirements for a period of at least 12 months from the date of the financial report, subject to the completion of further capital raisings and refinancing of the Notes.
- In addition the Company has an undrawn equity line of credit facility with YA Global Master SPV Ltd (**YA Global**). Under the terms of the facility, the Company may, at its discretion, issue shares to YA Global at any time during its 5 year term, up to a total of A\$10,000,000 (approximately €7,000,000). Post refinancing of the Notes the consolidated entity can utilize this facility to fund further exploration activities and other working capital requirements.

Based on the above, and having regard to expressions of support from the Company's largest shareholder the possibility of orderly asset sales, and farm-out deals, or alternately, but as a last resort, the use of the short term funding facility set out above, the directors are satisfied that, the going concern basis of preparation is appropriate.

However, if the Company and the consolidated entity are unable to achieve successful outcomes in relation to the matters discussed above there is significant uncertainty whether the Company and the consolidated entity will be able to continue as going concerns.

Should the company and the consolidated entity be unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities and appropriate disclosures that may be necessary should the company and the consolidated entity be unable to continue as going concerns.

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.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

(II) INTEREST IN JOINT VENTURE OPERATION

The Group's interest in its joint venture operation is accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements.

(III) 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.

(IV) 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:

Buildings – over 20 years

Plant and equipment – 5 to 8 years

Gas producing assets

The cost of gas producing assets and capital expenditure on gas assets under development are accounted for separately and are stated at cost less accumulated depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item as well as past exploration and evaluation cost. In addition costs include:

- i. The initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site in which they are located, and
- ii. Changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

When a gas asset commences production, cost carried forward will be amortised on a units of production basis over the life of the economically recoverable reserves. Changes in factors such as estimates of economically recoverable reserves that affect amortisation calculations do not give rise to prior financial period adjustments and are dealt with on a prospective basis.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

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.

(V) EXPLORATION AND DEVELOPMENT EXPENDITURE

Exploration, evaluation and development 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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology. The expected costs are discounted to their present value applying an appropriate discount rate.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(VI) 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 2010

(VII) 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.

Goodwill disposed of in the circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(VIII) 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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

(IX) 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.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

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.

(X) INVENTORIES

Inventories are valued at the lower of cost and net realisable value.

Cost is measured with reference to the direct costs incurred by the group in bringing the inventory to their current location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(XI) 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.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

(XII) 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.

(XIII) 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.

(XIV) 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.

(XV) 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.

(XVI) 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').

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

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.

(XVII) 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.

(XVIII) 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.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

(XIX) 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.

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.

(XX) 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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

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.

(XXI) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in the fair value being recognised in profit and loss.

(XXII) 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

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.

Provision for restoration, rehabilitation and dismantling

Provision for restoration, rehabilitation and dismantling is recognised when there is a legal or constructive commitment to do so. The amount recognised is the estimated cost of restoration, rehabilitation and dismantling, discounted to its net present value and is re-assessed each year in accordance with local conditions and requirements.

Share based payments

The values of amounts recognised in respect of share based payments has 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.

Goodwill impairment

As per note 1Cvii Goodwill is tested for impairment annually. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro-rata basis.

(XXIII) 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 balance sheet



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

(XXIV) SEGMENT REPORTING

Change in accounting policy

As of 1 July 2009, the consolidated entity determines and presents operating segments based on the information provided to the Board of Directors who are collectively considered to be the consolidated entity's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment reporting is presented as follows.

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment assets include production assets, exploration asset and other assets, such as cash, receivables and inventory, which are directly attributable to the segment.

(XXV) 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 2010

D IMPACT OF NEW OR REVISED ACCOUNTING STANDARDS

New or revised requirement	Effective for annual reporting periods beginning on or after	More information	Impact on Group
<p>AASB 101: Presentation of Financial Statements (Revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards & Interpretations and AASB 2007-10 Further Amendments to AASBs arising from AASB 101. The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards.</p>	Beginning 1 January 2009	This has been adopted for the financial year ended 30 June 2010	The group has adopted the revised terminologies for presentation of its financial statements in accordance with AASB 101.
<p>AASB 8: Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards 5, 6, 102, 107, 119, 127, 134, 136, 1023 & 1038 arising from AASB 8. This standard supersedes AASB 114, Segment Reporting which adopts a management reporting approach to segment reporting.</p>	Beginning 1 January 2009	This has been adopted for the financial year ended 30 June 2010	The group has revised its disclosure requirements in accordance with AASB 8, for the group's operating segments as monitored by management.
<p>AASB 2008-1: Amendments to AASB 2 "Share Based Payments" The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.</p>	Beginning 1 January 2009	This has been adopted for the financial year ended 30 June 2010	The adoption of this standard had no impact on the group.
<p>AASB 3 Business Combinations (Revised), AASB 127 Consolidated and Separate Financial Statements (Amended), AASB2008-3 Amendments to AASBs arising from AASB 3 and AASB 127</p> <p>The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.</p>	Beginning 1 July 2009	This has been adopted for the financial year ended 30 June 2010	These standards are applied prospectively and had no material impact on prior business combinations. The adoption has amended the accounting policy of business combinations for the group.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

New or revised requirement	Effective for annual reporting periods beginning on or after	More information	Impact on Group
AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate This amends and clarifies the following standards AASB 101, AASB 118, AASB 127 & AASB 136 for the treatment of determining the cost of an investment in a subsidiary, jointly controlled entity or associate.	Beginning 1 January 2009	This has been adopted for the financial year ended 30 June 2010	The adoption of this standard had no impact on the group.

Amendments to other standards and interpretation do not have material impact on the group, as the group does not engage in transactions covered by such amendments.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

2 FINANCE INCOME AND EXPENSES

	Consolidated Entity	
	2010 €,000	2009 €,000
Finance Income		
- Interest received on deposits held	5	29
	5	29
Finance Expense		
- Interest paid	1,095	1,091
- Finance costs arising from amortisation process	1,839	1,618
	2,934	2,709

3 RECEIVABLES

	Consolidated Entity	
	2010 €,000	2009 €,000
Current		
- Trade receivables	621	704
- Other receivables ⁽¹⁾	612	413
Total Current Receivables	1,233	1,117
Aged trade receivable analysis		
1-30 days	551	633
31-60 days	-	-
61-90 days	-	-
> 90 days	70	70
	621	703

⁽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.

4 AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated Entity	
	2010 €,000	2009 €,000
Investment in listed shares at fair value	138	255
Total	138	255

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

5 INCOME TAX EXPENSE

Consolidated Entity

	2010 €,000	2009 €,000
Major components of income tax expense for the years ended 30 June 2010 and 2009 are:		
Income statement		
Current income		
Current income tax charge	-	-
Deferred income tax		
Adjustment to current tax for prior period	462	-
Relating to origination and reversal of temporary differences	-	-
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	-	(14)
Income tax expense reported in income statement	462	(14)

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	(6,753)	(5,559)
Profit before tax from discontinued operations	-	-
Accounting profit (loss) before income tax	(6,753)	(5,554)
At the statutory income tax rate of 30% (2009: 30%)	(2,026)	(1,668)
International tax created differential	-	8
Tax loss not brought to account as a deferred tax asset	264	477
Non-deductible expenses	1,794	846
Adjustments in respect of previous current income tax	462	-
Temporary differences not recognised	(32)	325
Income tax expense	462	(14)
Income tax expense reported in the statement of comprehensive income	462	(14)
Income tax attributable to discontinued operation	-	-
	462	(14)
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items		
Provision for Impairment	154	-
Capital raising costs	152	-
Un-realised foreign exchange losses (gains)	14	-
Tax Losses	983	-
	1,303	-

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

6. INTANGIBLE ASSETS

	Consolidated Entity	
	2010 €,000	2009 €,000
Goodwill	24,011	24,011
Software	3	11
Other	64	-
	24,078	24,022

Movement in intangible assets	Consolidated Entity				
	Goodwill(1) €,000	Customer contracts €,000	Software €,000	Other €,000	Total €,000
Balance at 1 July 2009	24,011	-	11	-	24,022
Acquired during the year	-	-	-	64	64
Amortisation during the year	-	-	(8)	-	(8)
Balance at 30 June 2010	24,011	-	3	64	24,078
Balance at 1 July 2008	24,011	748	21	-	24,780
Acquired during the year	-	-	-	-	-
Amortisation during the year	-	(748)	(10)	-	(758)
Balance at 30 June 2009	24,011	-	11	-	24,022

(1) For the purposes of impairment testing, goodwill has been allocated to the gas production operating segment.

The group is currently engaged with several parties that may involve an equity sale in the Gazonor production asset. The current valuation is significantly greater than the goodwill which the group has recognised upon the initial acquisition of the asset. Using a methodology of fair value less cost of sales, an impairment test of the goodwill has been performed, and to which no impairment has been identified.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

7. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity	
	2010 €,000	2009 €,000
Land & Buildings		
- At cost	705	705
- Accumulated depreciation	(238)	(172)
Total land and buildings	467	533
Plant and equipment		
- At cost	5,634	5,110
- Accumulated depreciation	(2,692)	(2,387)
Total plant and equipment	2,942	2,723
Total property, plant and equipment	3,409	3,256

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

	Land and Buildings €,000	Plant and Equipment €,000	Total €,000
Consolidated entity			
- Balance at 1 July 2009	533	2,723	3,256
- Additions	-	524	524
- Depreciation	(66)	(305)	(371)
- Disposals	-	-	-
Carrying amount at the end of the year	467	2,942	3,409
Consolidated entity			
- Balance at 1 July 2008	600	1,885	2,485
- Additions	-	42	42
- Transfers from capitalised exploration costs	-	1,063	1,063
- Depreciation	(66)	(263)	(329)
- Disposals	-	(4)	(4)
Carrying amount at the end of the year	533	2,723	3,256

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

8. EXPLORATION EXPENDITURE

	Consolidated Entity	
	2010 €,000	2009 €,000
Exploration expenditure costs carried forward in respect of areas of interest in:		
- Pre-Production:		
- Exploration and evaluation phases - at cost		
Balance at the beginning of the year	26,999	23,325
Expenditure incurred	259	4,738
Transfers to plant and equipment	-	(1,064)
Write offs	(420)	-
Balance at the end of the year	26,838	26,999
Continuing operations	26,838	26,999
Discontinued operations	-	-
	26,838	26,999

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.

In order to maintain an interest in the mining and exploration tenements in which the consolidated entity is involved, the consolidated entity is committed to meeting the conditions under which the permits are granted and the obligations of any joint venture agreements. The timing and amount of exploration expenditure commitments and obligations of the consolidated entity are subject to the minimum expenditure commitments required by the relevant country and state Authorities, and may vary significantly from the forecasts based upon the results of the work performed which will determine the prospectivity of the relevant areas of interest

9. ESTIMATED EXPENDITURE COMMITMENTS

	Consolidated Entity	
	2010 €,000	2009 €,000
0-1 years	116	834
1-5 years	19,375	19,642
≥5 years	164	617
	19,655	21,093

These commitments include contractual lease agreements and exploration expenditure. In order to maintain current rights of tenure over its hydrocarbon permits, the Company and its controlled entities will be required to outlay amounts in respect of meeting minimum expenditure requirements of the relevant government authorities. These permit obligations may vary from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations by the relevant company.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

10. PAYABLES AND ACCRUALS

	Consolidated Entity	
	2010 €,000	2009 €,000
Trade payables and accruals	1,784	1,300
Payable to shareholders of Heritage Petroleum ⁽¹⁾	61	61
	1,845	1,362

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

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

11. INTEREST BEARING LIABILITIES

	Consolidated Entity	
	2010 €,000	2009 €,000
Current		
- Short term loan less transaction costs	1,431	-
- Debt component convertible note at amortised cost	37,763	932
	39,193	932
Non-Current		
- Debt component convertible note at amortised cost	-	35,092
	-	35,092

Short term loans:

On 29 March 2010, the group entered into a loan agreement with a Panama based company to borrow up to €1.69 million to fund the working capital requirements of the group.

As at the reporting date, the group has fully drawn down on this loan facility.

- The key terms of the loan are:
- 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 2011, and A\$0.18 if exercised thereafter up to 31 March 2011;
- The loan is repayable on 31 March 2011.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

11. INTEREST BEARING LIABILITIES (CONT'D)

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

Subsequently, the loan is being measured at its amortised cost at each reporting date applying the effective interest rate.

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 are:

- 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: anytime after 41st day of the issue and 7th day before maturity;
 - For Tranche B: anytime 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 2010

Tranche A Notes:

The Notes have been classified as a compound financial instrument containing both liability and equity components represented by the fixed rate note and the option to convert into ordinary shares of European Gas. The equity component of €2,620,073 represents the residual amount after deducting from the fair value of the Notes as a whole (€21,750,000) the amount of €19,129,927, which has been separately determined to be the fair value of the liability component.

The measurement of the fair value of the liability component was determined using a discounted cash flow analysis applying a discount rate of 10%, which was deemed to be the prevailing market interest rate for similar bonds with no conversion rights. The liability component is subsequently measured at amortised cost using the effective interest method for future periods.

Tranche B Notes:

The Notes have been classified as a straight debt instrument with no equity component. This has been determined as the terms of the equity conversion option of the Tranche B Notes contain various hurdles that would prevent the holder from converting at any time during the terms of the Notes.

Transaction costs measured at amortised cost using the effective interest rate method have been off-set against the liability components of both Tranches. Transaction costs of €148,578 were incurred in relation to the issue of the Notes with €137,857 deducted against the liability components and €10,701 were deducted against the equity component in relation to the Tranche A Notes on initial recognition on the basis there was an equity component recognised.

12. PROVISIONS

	Consolidated Entity	
	2010 €,000	2009 €,000
Provision for asset restoration and rehabilitation		
Balance at the beginning of the year	3,029	2,382
- amortisation of provisions	529	647
Balance at the end of the year	3,558	3,029

The restoration and rehabilitation provisions relate to the estimated costs associated with the restoration and rehabilitation of the Gazonor sites that will be incurred at the conclusion of the economic life of the asset. Independent estimates from third party companies have been sort for the work needed for restoration and rehabilitation, these values are reassessed each year and any adjustments are recorded in the provisions. The methodology used in determining the provision is further detailed in Note 1C (xxii)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

13. CONTRIBUTED EQUITY

As at 30 June 2010 there were 213,944,359 fully paid ordinary shares on issue. (2009: 199,155,662)

Movement in contributed equity	Consolidated Entity			
	2010 € ,000	2009 € ,000	2010 Number	2009 Number
Balance at the beginning of the year	31,281	31,281	199,155,662	199,155,662
Shares issued during the year				
Share based payment *	87	-	588,697	-
Share placement	1,559	-	14,200,000	-
Cost of raising equity	(208)	-	-	-
Balance at the end of the year	32,719	31,281	213,944,359	199,155,662

* 588,697 shares were issued 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

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.

Issued Options

As at 1 July 2009 there were 9,500,000 options outstanding, during the year 7,500,000 options lapsed in accordance with their terms.

The following options to issue ordinary shares were on issue as at 30 June 2010. All options outstanding are over unissued shares in European Gas Limited.

Consolidated Entity	Number	Exercise price
Unlisted options		
- 31 March 2011	25,000,000	\$0.18*
- 15 April 2012	2,000,000	\$2.50
	27,000,000	

* Exercise price is \$0.12 if exercised prior to 1/10/2010.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

14. SHARE BASED PAYMENTS

The following share-based payments arrangements existed at 30 June 2010

The company established the European Gas Limited (formerly Kimberley Oil NL) 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.

In general meeting in November 2006 the company approved the renewal and upgrade of the Employee Share Option Plan ("Incentive Plan") 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.

Pursuant to shareholder approval in general meeting in November 2006 the Company approved the grant of a second series of Director Options (Series A and B). A total of 8,000,000 Director Options were approved. The exercise price of the options is \$1.00 and \$1.50 each for Series A and Series B Director Options respectively. The Series A Director Options are exercisable at any time on or prior to the date which is 2 years after the date of the meeting to approve the grant of the options. The Series B Director Options are exercisable at any time on or prior to the date which is 4 years after the date of the meeting to approve the grant of the options.

In April 2008 the Company approved the grant of Employee Options (Tranche 1 and Tranche 2). A total of 3,000,000 Employee Options were approved. The exercise price of the options is \$1.50 and \$2.50 each for Tranche 1 and Tranche 2 Employee Options respectively. The Tranche 1 Employee Options are exercisable at any time on or prior to the date which is 2 years after the date of granting of the options. The Tranche 2 Employee Options are exercisable at any time on or prior to the date which is 4 years after date of granting of the options.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

	Consolidated Entity			
	2010		2009	
	Number of Options	Weighted Average Exercise Price A\$	Number of Options	Weighted Average Exercise Price A\$
Outstanding at the beginning of the year	5,500,000	1.64	11,000,000	1.46
Granted	25,000,000	0.18	-	-
Lapsed	3,500,000	1.50	5,500,000	1.27
Exercised	-	-	-	-
Outstanding at the end of the year	27,000,000	0.37	5,500,000	1.64

The options outstanding at 30 June 2010 had a weighted average exercise price of A\$0.37 and a weighted average remaining contractual life of 0.6 years.

The weighted average fair value of the options granted during the year was €0.016.

This price was calculated by using a Binomial tree option pricing model applying the following inputs:

Underlying share price	\$0.095
Expected share price volatility	100.0%
Risk free interest rate	5.07%
Dividend rate	0%
Number of discrete periods	8

15. RESERVES

	Option valuation reserve €,000	Foreign currency translation reserve €,000	Available for sale investments reserve €,000	Total €,000
Consolidated entity				
Balance at the beginning of the year	1,693	(36)	-	1,657
Movement during the year	(1,032)	-	27	(1,005)
At 30 June 2010	661	(36)	27	652

Nature and purpose of reserves:

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

16. PARENT ENTITY DISCLOSURES

As at, and throughout the year ending 30 June 2010 the parent entity of the consolidated entity was European Gas Limited.

	Parent Entity	
	2010 €,000	2009 €,000
Results of the parent entity		
Loss for the period	(3,081)	(3,042)
Other comprehensive income	27	-
Total comprehensive loss for the period	(3,054)	(3,042)
Financial position of the parent entity at year end		
Current assets	762	204
Total assets	65,140	64,690
Current liabilities	39,567	1,093
Total liabilities	43,359	41,694
Net assets	21,781	22,996
Total equity of the parent entity comprising of:		
Share capital	32,719	31,281
Options valuation reserve	661	1,693
Available for sale financial asset reserve	27	-
Accumulated losses	(11,626)	(9,978)
Total equity	21,781	22,996

At 30 June 2010, 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 2010

17. CASH FLOW INFORMATION

	Consolidated Entity	
	2010 €,000	2009 €,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	1,549	2,209
Cash guarantees held at bank	-	111
	1,549	2,320
B. Reconciliation of Cash Flow From Operations with Loss From Ordinary Activities After Income tax		
Loss from ordinary activities after income tax	(7,216)	(5,545)
Non-cash flows in loss from ordinary activities		
Depreciation of non-current assets	349	388
Amortisation of non-current assets	2,537	780
Foreign Exchange (Gains)/Losses	47	(73)
Amortisation of financial liabilities	1,839	1,618
Profit on sale of plant and equipment	-	-
Loss on sale of plant and equipment	-	34
Loss on sale of available for sale financial assets	16	-
Impairment of available for sale financial assets	63	237
Write-back of provision	(2,977)	-
Write-offs	420	21
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	(116)	656
Increase/(decrease) in trade and other creditors	1,452	(399)
(Increase)/decrease in other current assets/prepayments	(9)	(34)
(Increase)/decrease in inventory	30	(27)
Increase/(decrease) in provisions	529	647
Cash Flows From / (Used in) Operations	(3,036)	(1,697)
C. Credit Standby Arrangements With Banks		
Credit facility – bank overdraft	174	144
Amount used	-	-
Unused and available credit facility	174	144

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

18. CONTINGENT LIABILITIES

Since the last annual report date, there has been no material change of any contingent assets or contingent liabilities. The contingent liability disclosed in the last annual report is still in existence and the latest developments regarding this liability is detailed below:

On November the 5th, SAV filed additional conclusions requesting the Appeal Court of Douai to confirm the first decision of the Court and get Gazonor (a controlled entity of the group) to pay €2,101,811.51. On the January, 7th of 2010, following efforts from European Gas management team, SAV requested the Douai Appeal Court to further delay the audience to the 4th of February 2010.

On February, 3rd 2010, Gazonor has filed conclusions at the court replying to SAV's brief. Gazonor has increased its demand for damages to €1,000,000. On February, 4th 2010, the Douai Appeal Court delayed its decision to March, 18th 2010.

In the meantime, both SAV and Gazonor provided additional documents and filed conclusions at the Court and the Douai Appeal Court decided to delay further the audience to May, 27th 2010.

On May, 27th 2010, the Court announced that it will no longer accept any additional documents or new conclusions and stating the complexity of the matter, decided to further delay its decision to the 8th of September 2010.

Independently of any of the arguments raised by the Company before the Douai Court of Appeals, the Company considers that, even if it is found liable in connection with this litigation, such a judgment would allow it to make a claim for breach of the warranties agreed to by the seller of Gazonor, Filianor or its parent company Charbonnage de France, in the context of the acquisition. This has been notified to Filianor on the 28th March 2009 by the Group.

On September, 8th 2010, the Court announced that Gazonor did breach the supply agreement to SAV and was therefore liable of paying in first instance SAV €6,000. The Court also decided to get the Commercial Court of Arras to review the full documentation and decide on the Euros amount of the damage.

On September, 15th 2010, SAV filed its final conclusions and the Commercial Court of Arras provided Gazonor till the 8th of December 2010 to file its final conclusions.

No provision has been recorded in the financial statements in respect of this matter.

19. AUDITORS REMUNERATION

	Consolidated Entity	
	2010 €,000	2009 €,000
- auditing services		
- Deloitte Touche Tohmatsu – Australia	35	-
- PKF Chartered Accountants - Australia	22	57
- PKF - France	35	38
- PKF – United Kingdom	7	15
	99	110
- other services		
- PKF Chartered Accountants - Australia	35	79
- PKF – United Kingdom	22	18
	57	97
Total Auditors Remuneration	156	207

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

20. SEGMENT REPORTING

The group operates in two operating segments, being the production of gas at Gazonor, France; and exploration and evaluation of gases in Western Europe.

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

The segment information are:

	Production		Exploration		Total	
	2010 €,000	2009 €,000	2010 €,000	2009 €,000	2010 €,000	2009 €,000
Sales from external customers	5,351	8,119	-	-	5,351	8,119
Operating expenses	(4,680)	(6,801)	-	-	(4,680)	(6,801)
Depreciation and amortisation charges	(2,821)	(355)	-	-	(2,821)	(355)
Other income / (expenses)	2,929	(217)	-	-	2,929	(217)
Write off of exploration costs	-	-	(420)	-	(420)	-
Segment profit / (loss)	779	746	(420)	-	359	746
Administration expenses	-	-	-	-	(3,070)	(3,197)
Depreciation and amortisation charges	-	-	-	-	(65)	(812)
Financial expenses	-	-	-	-	(2,934)	(2,709)
Other income / (expenses)	-	-	-	-	(1,043)	413
Net loss before tax					(6,753)	(5,559)
Segment assets	28,365	28,268	26,838	26,999	55,203	55,267
Other assets	-	-	-	-	2,367	3,048
Total assets					57,570	58,315
Segment liabilities	4,749	4,143	206	-	4,955	4,143
Interest bearing liabilities	-	-	-	-	39,193	36,024
Other liabilities	-	-	-	-	880	255
Total liabilities					45,028	40,422
Additions to non-current assets	588	42	259	4,738	847	4,780



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

21. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

Detail of specified directors and executives

Directors

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

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

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

Gauthier De Potter (*Resigned 09/02/2010*)

Anthony J McClure (*Termination 25/10/2009*)

Alan J Flavelle (*Resigned 01/09/2009*)

Terence V Willsteed (*Resigned 01/09/2009*)

Mike Atkinson (*Resigned 28/05/2009*)

Nicholas Farr-Jones (*Resigned 28/11/2008*)

Specified executives

Mark Pitts, Company Secretary

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

Remuneration of directors and specified executives

	Short term benefits		Post employment	Termination Benefits	Total	Performance linked remuneration
	Salary & fees €,000	Other €,000	Super-annuation €,000	€,000		
Year ended 30 June 2010						
<i>Directors</i>						
Rodney Bresnehan	34,045	-	-	-	34,045	0%
Sebastian Hempel	33,728	-	-	-	33,728	0%
Julien Moulin	33,335	-	-	-	33,335	0%
Gauthier De Potter	23,712	-	-	-	23,712	0%
Anthony J McClure	34,260	100,890	-	250,613	385,763	0%
Alan J Flavelle	18,507	-	-	42,432	60,939	0%
Terence V Willsteed	6,858	-	-	-	6,858	0%
Mike Atkinson	-	-	-	-	-	0%
Nicholas Farr-Jones	-	-	-	-	-	0%
<i>Specified executives</i>						
Mark Pitts	41,618	-	-	-	41,618	0%
	226,063	100,890	-	293,045	619,998	0%
Year ended 30 June 2009						
<i>Directors</i>						
Rodney Bresnehan	-	-	-	-	-	0%
Sebastian Hempel	-	-	-	-	-	0%
Julien Moulin	-	-	-	-	-	0%
Gauthier De Potter	14,565	-	-	-	14,565	0%
Anthony J McClure	251,868	114,873	-	-	366,741	0%
Alan J Flavelle	108,281	-	-	-	108,281	0%
Terence V Willsteed	35,770	-	-	-	35,770	0%
Mike Atkinson	11,334	-	-	-	11,334	0%
Nicholas Farr-Jones	7,437	-	-	-	7,437	0%
<i>Specified executives</i>						
Mark Pitts	32,265	-	-	-	32,265	0%
	461,520	114,873	-	-	576,393	0%

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

Movement in shareholding of directors and executives

	Opening balance Nos.	Acquired Nos.	On ceasing date Nos.	Closing balance Nos.
Year ended 30 June 2010				
<i>Directors</i>				
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Julien Moulin	-	-	-	-
Gauthier De Potter	-	-	-	-
Anthony J McClure	3,820,752	-	3,820,752	-
Alan J Flavelle	950,000	-	950,000	-
Terence V Willsteed	4,000,000	-	4,000,000	-
Mike Atkinson	-	-	-	-
Nicholas Farr-Jones	-	-	-	-
<i>Specified executives</i>				
Mark Pitts	-	-	-	-
	8,770,752	-	8,770,752	-
Year ended 30 June 2009				
<i>Directors</i>				
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Julien Moulin	-	-	-	-
Gauthier De Potter	-	-	-	-
Anthony J McClure	3,220,752	600,000	-	3,820,752
Alan J Flavelle	950,000	-	-	950,000
Terence V Willsteed	3,500,000	500,000	-	4,000,000
Mike Atkinson	-	-	-	-
Nicholas Farr-Jones	-	-	-	-
<i>Specified executives</i>				
Mark Pitts	-	-	-	-
	7,670,752	1,100,000	-	8,770,752

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

Movement in option holding of directors and executives

	Opening balance Nos.	Lapsed Nos.	On ceasing date Nos.	Closing balance Nos.
Year ended 30 June 2010				
<i>Directors</i>				
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Julien Moulin	-	-	-	-
Gauthier De Potter	-	-	-	-
Anthony J McClure	1,875,000	-	1,875,000	-
Alan J Flavelle	1,375,000	-	1,375,000	-
Terence V Willstead	750,000	-	750,000	-
Mike Atkinson	-	-	-	-
Nicholas Farr-Jones	-	-	-	-
<i>Specified executives</i>				
Mark Pitts	-	-	-	-
	4,000,000	-	4,000,000	-
Year ended 30 June 2009				
<i>Directors</i>				
Rodney Bresnehan	-	-	-	-
Sebastian Hempel	-	-	-	-
Julien Moulin	-	-	-	-
Gauthier De Potter	-	-	-	-
Anthony J McClure	3,750,000	(1,875,000)	-	1,875,000
Alan J Flavelle	2,750,000	(1,375,000)	-	1,375,000
Terence V Willstead	1,500,000	(750,000)	-	750,000
Mike Atkinson	-	-	-	-
Nicholas Farr-Jones	-	-	-	-
<i>Specified executives</i>				
Mark Pitts	-	-	-	-
	8,000,000	(4,000,000)	-	4,000,000

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

Balances due to directors and executives

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

	2010 €,000	2009 €,000
Gauthier De Potter	-	10,600
Anthony J McClure	-	21,500
Alan J Flavelle	-	4,505
Mark Pitts	-	3,163
	-	39,768

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:

- European Gas Limited paid interest of €1,087,500 (2009: €1,087,500) to Transcor Astra Group, of which Mr Gauthier De Potter is an executive director.
- European Gas Limited paid fees of €31,678 (2009: €Nil) to Greenwich Legal Services Pty Ltd, of which Mr Sebastian Hempel is an associate. Mr Hempel did perform any work associated with these fees and as such received no remuneration associated with these fees during the period.

	Income recognised €,000	Expenses recognised €,000	Balances receivable €,000	Balances payable €,000
For year ended 30 June 2010				
CONSOLIDATED ENTITY				
Transcor Astra Group	-	2,826	-	37,763
	-	2,826	-	37,763
For year ended 30 June 2009				
CONSOLIDATED ENTITY				
Transcor Astra Group	-	2,705	-	36,024
	-	2,705	-	36,024

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

23. EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2010 was based on the loss attributable to ordinary shareholders of €7,215,770 (2009: loss of €5,545,254) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 209,859,818 (2009: 199,155,662), calculated as follows:

	Consolidated Entity	
	2010 € € ,000	2009 € ,000
a. Loss attributable to ordinary shareholders		
Loss used in the calculation of basic and dilutive EPS	7,216	5,545
	Number	Number
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	209,859,818	199,155,662
Weighted average number of dilutive options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	209,859,818	199,155,662
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	27,000,000	9,500,000
Convertible notes	48,500,000	48,500,000
	75,500,000	58,000,000

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

24. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS:

	Note	Consolidated Entity	
		Carrying amount € ,000	Fair Value € ,000
At 30 June 2010			
Cash and cash equivalent	a	1,549	1,549
Trade and other receivable	a	1,233	1,233
Available for sale financial assets	b	138	138
Trade and other payables	a	(1,845)	(1,845)
Interest bearing liabilities	c	(39,193)	NA
At 30 June 2009			
Cash and cash equivalent	a	2,320	2,320
Trade and other receivable	a	1,117	1,117
Available for sale financial assets	b	255	255
Trade and other payables	a	(1,361)	(1,361)
Interest bearing liabilities	c	(36,024)	NA

- The carrying amounts closely approximate their fair values on account of the short maturity cycle.
- Fair value has been determined by applying the closing bid price at reporting date
- 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 2010

	Consolidated Entity	
	2010 €,000	2009 €,000
Maximum Credit Risk	1,233	1,117
	1,233	1,117

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.

At 30 June 2010	Up to 6 months €,000	6 - 12 months €,000	1 - 3 years €,000	Total €,000
CONSOLIDATED ENTITY				
Trade and other payables	1,845	-	-	1,845
Short term loan	-	1,731	-	1,731
Convertible note - interest and principal	38,952	-	-	38,952
	40,797	1,731	-	42,528

At 30 June 2009

At 30 June 2009	Up to 6 months €,000	6 - 12 months €,000	1 - 3 years €,000	Total €,000
CONSOLIDATED ENTITY				
Trade and other payables	1,361	-	-	1,361
Convertible note - interest and principal	544	544	39,224	40,312
	1,905	544	39,224	41,673

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

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.

Group cash assets held

	Consolidated Entity	
	2010 €,000	2009 €,000
Cash	1,549	2,320

Effect of change in interest rates

	Impact on Profit and Loss	
	Interest Rate Change +/- %	Consolidated Entity +/- (€)
2010	1.00	15,485
2009	1.00	23,196

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

D. FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk on sales, 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 Groups 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.

Unhedged amounts receivable / payable in foreign currency

	Consolidated Entity	
	2010 €,000	2009 €,000
Cash	672	167
Current – receivables	-	36
Financial assets	138	255
Current – payables	(302)	(211)
	508	247

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

Effect of change in foreign exchange rates

Impact on Profit and Loss

	Interest Rate Change +/-%	Consolidated Entity +/- (€)
2010		
AUD/EUR	25.00	127,322
2009		
AUD/EUR	25.00	61,825

Exchange rate at reporting dates are 0.6979 (2010) and 0.5751 (2009)

Using a sensitivity movement of 25%, the impact on profit and loss can be clearly seen. The maximum deviation of the foreign exchange rate during the period has been approximately 24% from the 2009 value; the management considers a movement of 25% as reasonable expectation.

E. COMMODITY PRICE RISK

The Group is exposed to commodity price risk on the revenue received from its sales of gas. Contracts are in place for the procurement of gas produced at the Gazonor production facility.

The Groups policy is to enter into favourable arrangements through negotiation with third parties ensuring that long term cash inflows can be generated for the group.

Gas prices are set as per the conditions of the individual contracts and are correlated to the market prices being received for such sales.

Effect of change in commodity price of gas

Impact on Profit and Loss

	Price Change +/-%	Consolidated Entity +/- (€)
2010	10.00	535,054
2009	10.00	812,159

The gas prices in the market have declined towards the close of the 2010 financial year end. The gas prices are sensitive to the seasonal weather movements. The demand peaks during the winter seasons in Western Europe, being November to February each year. And demand troughs during the summer seasons, being June to September.

Considering the past experience of market price volatility, management considers 10% movement to be a reasonable estimate.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

F. EQUITY PRICE RISK

The Group holds investments in two listed entities, and as such these are subject to varying valuations based on their current market price. The carrying value of these assets in the balance sheet represents the closing price of these entities 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	
	2010 €,000	2009 €,000
Cash	138	255

Effect of change in equity prices

	Impact on Profit and Loss	
	Price Change +/- %	Consolidated Entity +/- (€)
2010	10.00	13,837
2009	10.00	25,457

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.

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 2009.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

25. CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%)	
		2010	2009
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	100	100
- Gazonor S.A.	France	100	100
- European Gas Limited (UK)	United Kingdom	100	100
- Heritage Petroleum Ltd	United Kingdom	100	100
Jointly controlled entity:			
- European Gas Benelux S.A.	Belgium	50	50

26. EVENTS SUBSEQUENT TO REPORTING DATE

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

- On 7 July 2010, the board appointed Mr Peter Cockcroft to the position of Managing Director.
- During September 2010 25,000,000 unlisted options, with an exercise price of 12 cents, were exercised in accordance with their terms.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2010

COMPANY DETAILS

The Corporate Office of the company is:

2 Rue de Metz
Freyming-Merlebach
57800
FRANCE

Telephone: +33 3 87 04 32 11

Fax: +33 3 87 91 09 97

E-mail: info@europeangas.fr

Website: www.europeangas.fr

The Registered Office of the company is:

Suite 4, 4 Ventnor Avenue
West Perth Western Australia 6005
AUSTRALIA

Telephone: +61 8 9226 0320

Fax: +61 8 9226 0309

E-mail: info@europeangas.com.au

Website: www.europeangas.com.au

DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

The directors of European Gas Limited declare that:

- a. in the directors' opinion the financial statements and notes on pages 30 to 74 and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 24 to 28, 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 2010 and of its performance, for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- 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 2010, required by Section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors

On behalf of the Board



Peter Cockcroft – Managing Director

Dated at Perth, Western Australia this 30th day of September 2010



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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 2010, and 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 74.

Directors' Responsibility for the Financial Report

The directors of the European Gas Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(B), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 and fair presentation of the financial report 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*.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu

Deloitte

Auditor's 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 2010 and of 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(B).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(B) in the financial report which indicates that the consolidated entity incurred a net loss of €7,216,000 and experienced net cash outflows of €725,000 during the year ended 30 June 2010 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by €38,362,000. These conditions, along with other matters as set forth in Note 1(B), indicate the existence of a material uncertainty which may cast significant doubt about the Company's and consolidated entity's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Significant uncertainty regarding litigation

Without qualifying our opinion, we draw attention to Note 18 to the financial statements.

Subsequent to 30 June 2010, a court in France has held Gazonor S.A. (a controlled entity of European Gas Limited) liable for damages in relation to a previous breach of a supply contract. The quantum of the damages is yet to be determined by the courts. The process to quantify the damages will commence on 15 December 2010 and is expected to take up to twelve months. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 28 of the directors' report for the year ended 30 June 2010. The directors of European Gas Limited 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.

Auditor's Opinion

In our opinion the Remuneration Report of European Gas Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Chris Nicoloff
Chris Nicoloff
Partner
Chartered Accountants
Perth, 30 September 2010

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

As At 30 September 2010

1. SHAREHOLDING

a. Total number of fully paid shares on issue **238,944,359**

b. Number of shareholder

Total registered	1,616
Holding less than a marketable parcel	245

c. Distribution schedule and number of equity securities

Range of Units	1-1,000	1,001-5,000	5,001-10,000	10,001-100,000	100,001-max	Total
Fully paid ordinary shares	184	407	331	571	123	1,616

d. Twenty largest holders of equity securities - ordinary shares

Shareholder	Number of Fully Paid Ordinary Shares	%
1 Merrill Lynch (Australia) Nominees Pty Ltd	46,300,000	19.38
2 JP Morgan Nominees Australia Limited	45,378,169	18.99
3 HSBC Custody Nominees (Australia) Limited	37,091,893	15.52
4 Ocean Dome Corporation	25,000,000	10.46
5 National Nominees Limited	12,318,773	5.16
6 ABN AMRO Clearing Sydney Nominees Pty Ltd	3,671,002	1.54
7 Citicorp Nominees Pty Ltd	3,031,956	1.27
8 Travelly Pty Ltd	2,000,000	0.84
9 PYNC Pty Ltd	1,500,000	0.63
10 Mr Shane Bach	1,460,000	0.61
11 Mrs Caroline Rowan	1,375,000	0.58
12 Mr T H & Mrs D E Niekamp	1,050,443	0.44
13 Odessey Pty Ltd	1,045,708	0.44
14 Kurraba Investments Pty Ltd	1,000,000	0.42
15 Umbiram Pty Ltd	1,000,000	0.42
16 Ross Asset Management Limited	950,000	0.40
17 OIC Nominees Pty Ltd	895,375	0.37
18 HSBC Custody Nominees (Australia) Pty Ltd – GSCO	880,448	0.37
19 Picton Management Services Pty Ltd	850,000	0.36
20 Ambre Investments Pty Ltd	820,000	0.34
	187,618,767	78.52

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

As At 30 September 2010

e Substantial shareholder

Those shareholders who have lodged with the company a notice under the *Corporations Act 2001* advising of substantial shareholding in the company are as follows:

Shareholder	Number of Fully Paid Ordinary Shares	%
1 Bank of America Corporation (Maoming Fund)	45,600,000	19.08
2 Ocean Dome Corporation	25,050,000	10.48
3 Pim Gestion France	12,070,000	5.60

f. Voting Rights

The voting rights attaching to each class of securities are set out below.

Fully paid ordinary shares:

Each shareholder is entitled to vote in person or by proxy, attorney or representative.

On a show of hands, every person present, who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote per share.

2. UNQUOTED SECURITIES

a Unquoted securities on issue as at 30 September 2010:

Unquoted Securities	Number On issue	Exercise Price	Expiry Date
Options			
Contractor options	2,000,000	\$2.50	15 April 2012
Convertible Notes			
Tranche A	14,500	-	31 December 2010
Tranche B	9,750	-	31 December 2010

b Names of persons holding more than 20% of a given class of unquoted securities (other than employee options):

Securities	Name	Number of Securities
Convertible Notes	Transcor Astra Group	55,000,000

The number of ordinary shares represented by Convertible Notes on issue is approximately 55,000,000 subject to adjustment provisions set out in the note terms. Optionholders and Convertible Note holders have no voting rights.

3. RESTRICTED SECURITIES

There are no restricted securities on issue.

4. ON-MARKET BUY BACK

There is currently no On-Market Buy-Back in operation by European Gas Limited.

NOTES



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