



QUARTERLY REPORT 30 SEPTEMBER 2010

HIGHLIGHTS

Gazonor, France

- Gas sales of 68,510 MWh (246,636 GJ) for the quarter.
- Gas prices (ave.) for the quarter of €17.52 per MWh (€4.87 per GJ), (AU\$24.68 per MWh; AU\$6.86 per GJ respectively).

General

Lorraine, France

➤ Folschviller -2:-

Fracture system encountered in lower seam was not de-watered and the lower lateral will be plugged to allow continuation of work on upper seam.

Reservoir data from upper seam tests incorporated into preliminary pilot design and proposals for development strategy. Further testing planned.

Gazonor, Pas-de-Calais (North France)

Award of the Sud Midi Exploration Permit (Gazonor)

Company Information

Board of Directors

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

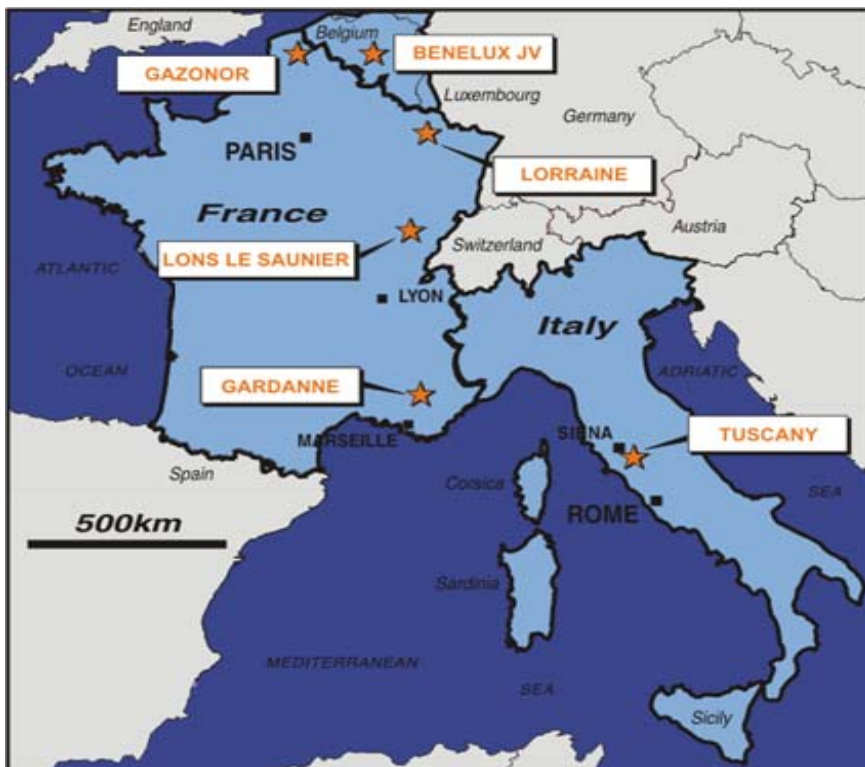
Company Secretary

Mark E Pitts

ASX Code: EPG
Shares on Issue: 238,944,359
Conv. Notes¹: 55,100,000
Options: 2,000,000

¹ 24,250 notes converting to approximately 55,100,000 fully paid ordinary shares subject to customary adjustment provisions. Expiry end Dec 2010

* Appointments announced after the end of the quarter.



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GAZONOR

European Gas holds a 100% interest in the Gazonor project in Northern France. The Gazonor assets include the gas exploitation rights over the Poissonnière and Désirée permits, comprising a total area of 767 square kilometres (km²) including the Poissonnière extension (granted January 2009).

The Valenciennois exploration permit, comprising an area of 432 square kilometres (km²), was granted in October 2009.

The Sud Midi exploration permit has been granted on July 26th, and is adjacent to EGL's Gazonor Production Concession. The permit area covers 929 km².

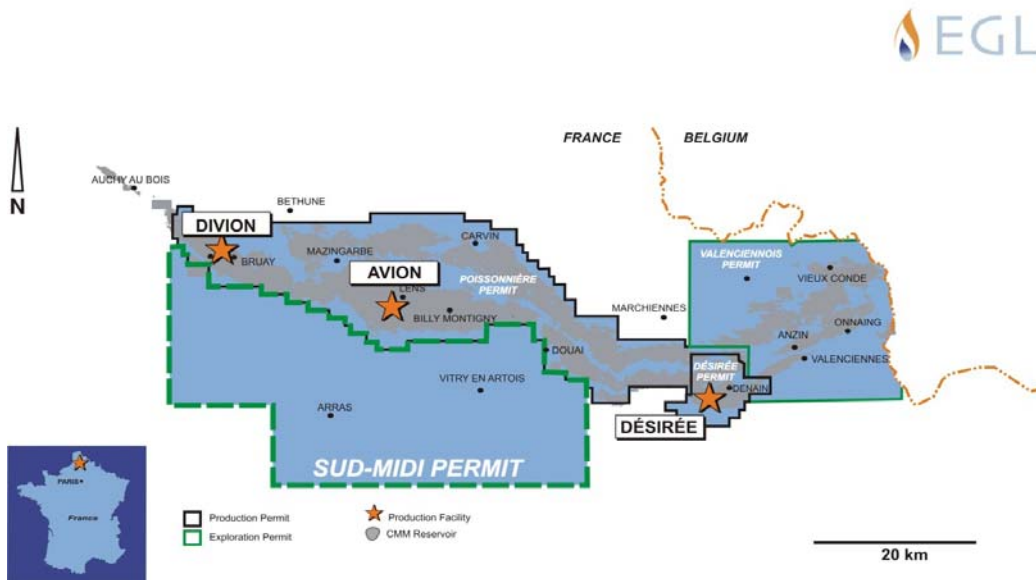


Figure 2: Gazonor Project Location Map

Gas Sales

Detail of gas sales for the quarter are summarised in the following table.

Sales		Average Price Received	
MWh	GJ	€/MWh	€/GJ
68,510	246,636	17.52	4.86

Gas sales of 68,510 MWh (246,636 GJ) for the quarter

Gas sales decreased compared to the second quarter 2010, due to less demand in the grid (summer versus spring).

Revenues for the quarter totalled €1.200 million (A\$ 1.691 million).

Gas Price Outlook

The Company's gas is sold under contracts with a pricing formula which smooths market volatility. Injection into the Gournay storage has increased the summer production, compared to the previous years.

Average sale price of €17.52 per MWh or €4.87 per GJ

Exploration Programme

Evaluation of the Coal Mine Methane (CMM) reserves and resource potential on the Valenciennois exploration permit and identification of CBM exploration opportunities continued to be the focus of exploration effort in the Nord Pas de Calais area.

Estimates of the remaining gas filled void space; gas potentially accessible in zones de-stressed by mining and the adsorbed gas in adjacent coal seams have been prepared. These, together with hydrology studies have been used to target hydrology test wells to confirm the conditions in the areas in communication with existing production facilities and in the isolated pockets.

Geologic and historic mining information for several parts of the Gazonor property have been integrated into a 3D geology modelling package. This work, when completed in 2011, will allow more rapid evaluation of development and exploration targets for both CMM and CBM in the Gazonor lands.

LORRAINE

Eastern France

European Gas holds a 100% interest in two permits, covering a major part of the Lorraine Basin. In addition, the Company has recently submitted an application for an additional 360 km² (Lorraine Nord). (see Figure 3.)

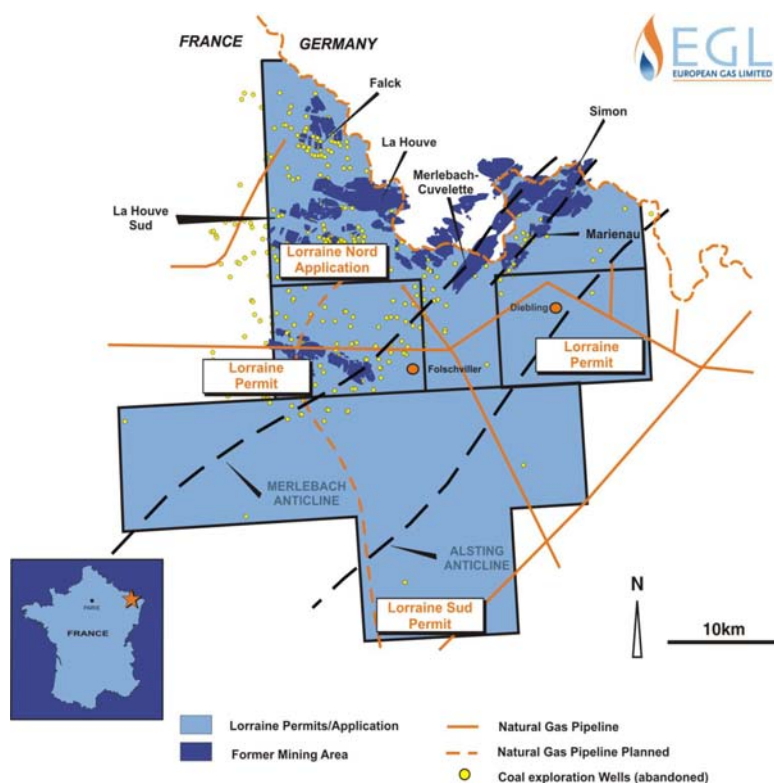


Figure 3: Lorraine Project Location Map

Exploration Program

The Lorraine well test programme has demonstrated the capability of the coal seams to flow gas, and that in the test area, in the vicinity of known faults, coal seams are naturally fractured. Fractures have been shown to be hydraulically connected to adjacent aquifer systems.

The focus of the current exploration work in Lorraine is evaluation of the relationship between geological structure and regional aquifers. The results will help determine the location of future exploration and testing wells. Recent geology work has incorporated information from previous drilling, detailed coal seam mapping from mine workings and seismic interpretations into a computer aided 3D geology modelling system. It is anticipated that accurate and timely visualization of the structure and geometry of the Lorraine coals will allow identification of future targets.

Well Test Program

In house and independent evaluation of the test results from the Folschviller 2 well continued during the quarter. The evaluation includes building engineering concepts for pilot scale testing and commercial scale exploitation which form the basis for preliminary economic models.

Results from the Folschviller 2 well show that the upper lateral is capable of gas flow, and is not in direct hydraulic communication with either the overlying aquifer system or the flooded mine workings. Permeability estimates for the coal in the upper lateral together with the desorption pressure data measured at the end of 2009 indicate that lateral wells in excess of approximately 1000 metres in length may be capable of producing gas with small amounts of water at commercial rates. The constraints and boundary conditions interpreted from the tests to date are being applied to current geology mapping studies.

JURA (LONS-LE-SAUNIER)

Central France

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

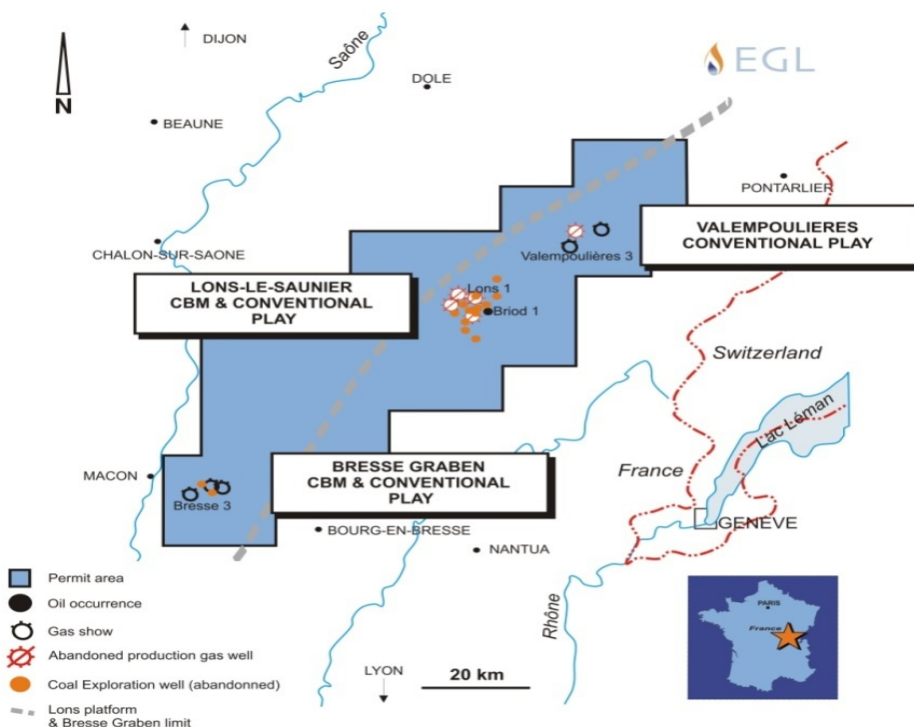


Figure 4: Jura (Lons-le-Saunier) Project Location Map

Exploration Program

The 3,795km² Jura (Lons-le-Saunier) permit contains an undeveloped coalfield with CBM potential, two historically produced conventional natural gas fields, several other gas shows and unconventional oil and gas potential in the Bresse Graben (see Figure 4.). Re-evaluation of seismic and other data indicates potential for additional conventional gas accumulations as well as potential for gas resources within the previously exploited areas.

The Company's exploration team is mapping potential source and reservoir rocks in the deeper Bresse Graben. The structural interpretation, based on re-processed seismic data, shows formations of interest and structural traps with geometry which is thought to be favourable for both unconventional gas (shale gas) and conventional natural gas.

During the period under review a detailed study on the two historically produced conventional gas reservoirs was continued. This work is intended to quantify the remaining resources in the gas accumulations and to identify potential oil accumulations based on revised structural interpretations and historical well data.

GARDANNE

Southern France

European Gas Limited holds a 100% interest in the "Gaz de Gardanne" permit. The area is within a larger unconventional gas target area which has been the subject of significant permitting interest in recent months.

Exploration Program

An environmental impact study and site evaluation on a proposed drilling location was continued during the period under review with results expected by year end. The drilling location was selected to test the coals in an area of the basin where the effects of flooded mine workings will be minimised.

BELGIUM

European Gas holds a 50% interest in a joint venture company created for the purposes of securing title, exploring, developing, extraction and marketing of hydrocarbons including CBM, CMM and conventional oil and gas within Belgium, the Netherlands and Luxembourg (“European Gas Benelux S.A.”).

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

During the period under review the Company undertook research into an additional CBM opportunity in the Benelux area.

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

SOUTHERN TUSCANY

Italy

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

No work was conducted during the quarter.

CANNING BASIN

Western Australia

European Gas holds a Net Well Head Royalty (2% to 3%) over 30,171 km² in the Canning Basin, Western Australia.

GENERAL

The French Government has formally granted its wholly owned subsidiary GAZONOR SA (Gazonor), on July 26th, a new exploration permit “Sud Midi” (located in the North Pas de Calais).

The “Sud Midi” increases EGL’s portfolio and confirms its position among the largest CBM and unconventional gas permit holders in Western Europe. EGL has a 100% working interest.

This permit is adjacent to EGL’s Gazonor Production Concession, and, together with the Valenciennois permit, forms a contiguous permit area of 1,352 km². The permit area covers 929 km² and is located in the North Pas de Calais region (North of France). The permit is granted for a five year term until July 23rd 2015 with a total expenditure commitment of 1.9 million Euros.

NEW VENTURES

Europe

The Company has an established land position in Europe where recent activity in the oil and gas sector demonstrates an upsurge in interest in unconventional gas and oil potential. In addition to pursuing the shale and tight gas on its existing properties, EGL is evaluating opportunities elsewhere in Europe where resource potential and market demand are aligned.

CORPORATE

Discussions were ongoing with a number of parties in respect to options for the repayment or refinancing of the Convertible Notes held by Transcor Astra Group

FINANCIALS APPENDIX 5B

At 30 September 2010, the Company had available funds of approximately €2.58 million (AU\$3.69 million).

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

ABOUT EUROPEAN GAS LIMITED

European Gas Limited (ABN 75 075 760 655) is a hydrocarbon explorer/developer with projects in western Europe. The strategy of the Company is to develop Coal Bed Methane and Coal Mine Methane projects, in particular, in France where the Company with major holdings under licence holds a significant competitive advantage.

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

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

For further information please contact

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or refer to the European Gas Limited web-site: www.europeangas.fr

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