# EUROPEAN GAS LIMITED
# ABN 75 075 760 655
## AND CONTROLLED ENTITIES

## HALF YEAR FINANCIAL REPORT
## 31 DECEMBER 2008

**EUROPEAN GAS LIMITED**
ABN 75 075 760 655

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## INDEX

## Directors' Report
**FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2008 and the review report thereon.

### DIRECTORS

The names of the Directors of the Company at any time during or since the end of the half-year are:

Mr Anthony J. McClure (Managing Director)

Mr Alan J. Flavelle (Executive Director)

Mr Terence V. Willsteed (Non-Executive Director)

Mr Michael Atkinson (Non-Executive Director - appointed 28 January 2009)

Mr Gauthier De Potter (Non-Executive Director - appointed 28 January 2009)

Mr Nicholas Farr-Jones (resigned 27 November 2008)

### REVIEW AND RESULT OF OPERATIONS

#### Financial

The consolidated entity recorded an operating loss after income tax for the half year ended 31 December 2008 of €3,483,245 (2007: Loss €895,755).

The Directors continue to review the carrying values of assets, and at this time have considered it not necessary to adjust the amounts as the written down values reasonably reflect their current values.

### ABOUT EUROPEAN GAS LIMITED

European Gas 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 holds a significant competitive advantage with major holdings under license.

## Europe


**Figure 1 European Gas Project Areas**

## 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 ($km^2$) including the Poissonnière Extension (granted in January 2009). An additional 1,352 $km^2$ is under application for exploration permits (see Figure 2).

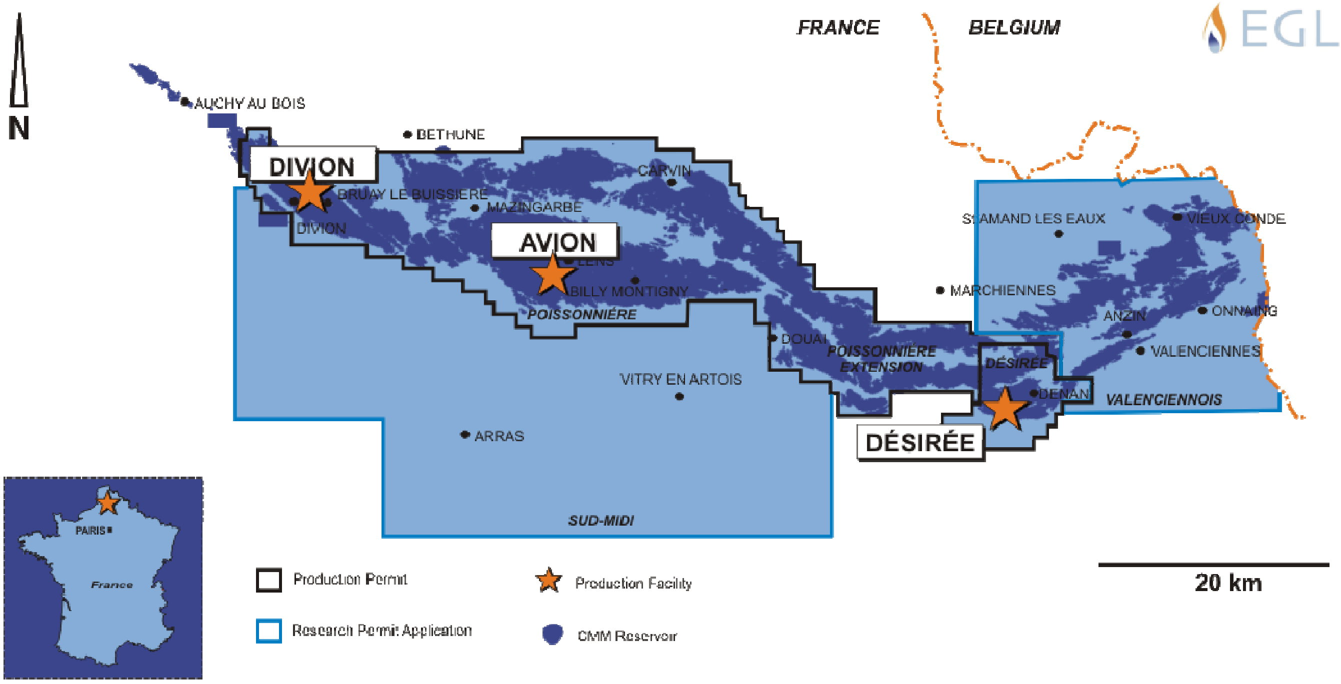


**Figure 2 Gazonor Project**

## Reserves

Current Gazonor reserves are summarised in the following table.

***Certified Reserves as at July 2008***

| | | Billions of Cubic Metres * $Bm^3$ | 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 |

** contained methane*

The estimates were carried out by independent Deutsche Montan Technologie GmbH of Essen, Germany ("DMT") on behalf of European Gas. Both deterministic and probabilistic methodology has been used to derive reserve estimates. The 2P figure is based on a lognormal relationship being in force and using the deterministic 1P and 3P estimates for control.

## Contingent Resources

Initial estimates of CBM contingent resources within its Exploration and Production interests at Gazonor were completed during the half year.

The estimates cover both the Poissonnière and Désirée production permits (see Figure 2).

The current reserve and resource assessments exclude the potential reserves and resources within areas influenced by mining, the Poissonniére Extension and the Valenciennois and Sud Midi applications covering 1,541 $km^2$.

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

The initial contingent resources as at October 2008 are shown in the following table.

***Contingent Resources as at October 2008***

| | | Billions of Cubic Metres * $Bm^3$ | Billions of Cubic Feet * Bcf | Petajoules PJ |
|---|---|---|---|---|
| Gazonor | C1 + C2 + C3 | 136 | 4800 | 5090 |

** contained methane*

## Development

The Company continued its programs for the expansion of production at Gazonor. The current works and pre-feasibility works concentrate on two principal areas of development: expansion of gas production and sales; and the potential installation of electricity generation facilities. With the expiry of the maintenance contract in March 2009, the Company will take over all operational and maintenance aspects of the main Gazonor production facility at Avion. This will result in substantial operation cost reductions and production enhancement.

## Gas Sales

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

| | Sales | | Average Price Received | |
|---|---|---|---|---|
| | MWh | GJ | €/MWh | €/GJ |
| December Quarter | 101,048 | 363,773 | 29.00 | 8.00 |
| September Quarter | 34,488 | 124,160 | 25.72 | 7.15 |
| | **135,536** | **487,933** | **28.17** | **7.79** |

Gas sales increased in the second quarter of the half year due to the typical seasonal variations of the winter months with higher local gas consumption.

For the second half of the 2009 fiscal year, sales prices will decline. The Company estimates that pricing will average around €23.00 per MWh or €6.00 per GJ (approximately A$46.00 per MWh or A$12.00 per GJ) for the March quarter 2009. Gas prices are likely to further weaken in the June quarter 2009.

**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 km$^2$ (Lorraine Nord). (see Figure 3.)

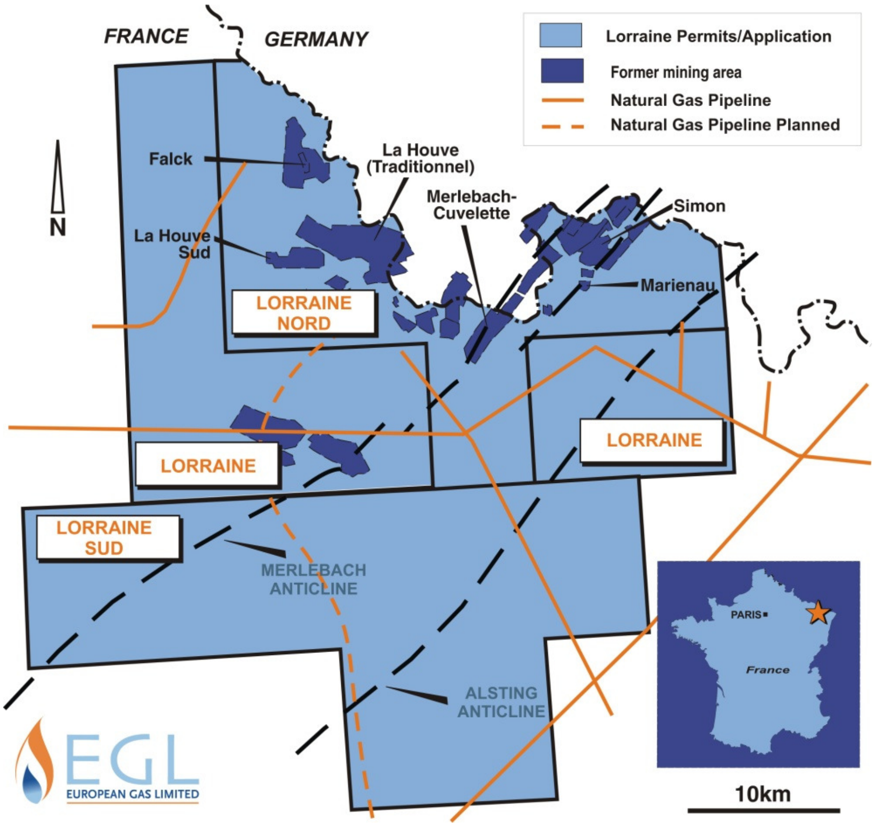


**Figure 3 Lorraine Project Development Areas**

Principal activities for the period focused on the drilling activities at the Folschviller 2 appraisal (or production test) well being drilled at a site 850 metres east of the town of Folschviller and immediately adjacent to the Company's Folschviller St 1 stratigraphic well.

Two laterals and two sidetracks have been completed for a total of 433 metres of coal and a further 367 metres of gassy sediments. The target has been the coal of the Marie-Maurice-Noirel seam and the Alpha-Alpha'-Beta-Gamma seam.

Some mechanical difficulties were encountered when drilling an additional lateral and after analysis of the risks, a decision was made to proceed to the testing of the two completed laterals and the two sidetracks. The lower lateral is temporarily shut in below a packer while the test on the upper lateral is partially complete demonstrating tight coals as anticipated. Testing on the lower lateral was deferred during the half year pending the delivery of a workover rig. More recently the program is suspended as part of the Company's cost reduction exercise, however the program remains a priority to complete.

Results from these tests will be used to estimate potential deliverability and evaluate the future application of a lateral drainage strategy for development of the Lorraine coals.

## Contingent Resources

Initial estimates of CBM contingent resources within its Lorraine and Lorraine Sud permits were completed.

The contingent resources are contained within the Lorraine and Lorraine Sud permits (see Figure 3).

***Contingent Resources as at October 2008***

| | | Billions of Cubic Metres * $Bm^3$ | Billions of Cubic Feet * Bcf | Petajoules PJ |
|---|---|---|---|---|
| Lorraine | C1 + C2 + C3 | 54 | 1899 | 2010 |
| Lorraine Sud | C1 + C2 + C3 | 50 | 1782 | 1890 |
| **TOTAL** | | **104** | **3681** | **3900** |

** contained methane*

The estimates exclude the Lorraine Nord application area covering 360 $km^2$.

The estimates were conducted by the European Gas technical group under SPE and PRMS guidelines. The study allows for the planning and commencement of moving the contingent resources to reserve categories and the assessment of development and production options.

### LONS-LE-SAUNIER, CENTRAL FRANCE

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

The Company has carried out a preliminary structural assessment of the Lons-le-Saunier coal basin for the purpose of identifying sites to drill test the gassy coals in the basin. This analysis has identified many areas where thick gassy coals may be tested. One site south of the Lons-le-Saunier township has been selected for initial drilling. The target coals are at depths less than 1000 metres below the surface. The timing of the drill test is subject to completion of permitting, financing and the mobilisation of an appropriate drilling rig.

## GARDANNE, SOUTHERN FRANCE

European Gas holds a 100% interest in the Gardanne permit.

One site has been selected for appraisal drilling at Gardanne, subject to finance and rig availability. The Company classifies this well as an appraisal well as it is to be drilled into an extension of a zone which recorded good methane flows from vertical wells drilled for mine de-gassing purposes in the past.

The program is in preparation for the potential development of the Gas in Place (GIP) resource which to date totals 2,803 million cubic metres (99.1 Bcf).

## SAINT ETIENNE, CENTRAL FRANCE

European Gas holds a 100% interest in the St Etienne permit.

A site for a CMM appraisal well has been selected and permitting is in progress. Drilling is subject to finance and rig availability.

## BENELUX JOINT VENTURE

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 ("Benelux JV").

During the period, the Benelux JV applied to the Wallonia Government for a hydrocarbon permit "Hainaut" covering 443 km$^2$. 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 "Anderlue et Peronnes" which covers 40 km$^2$.

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

## SOUTHERN TUSCANY, ITALY

Three permit areas covering a total of 1,553 km$^2$ have been granted and preliminary environmental impact studies have been submitted to the Regione Toscana for approval.

## CANNING BASIN, WA

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

## CORPORATE/OTHER

### Cost Reduction Exercises

During the half year, the Company commenced a comprehensive cost reduction exercise spanning production, exploration and corporate operations of the Company.

For Gazonor, current forecasts demonstrate that on site unit cash operating costs at Avion may reduce by approximately 25% for the 2009 calendar year when compared to 2008. These unit cost reductions are a result of actual cost reduction measures (down approximately 15%) along with higher gas production forecasts moving from 300 to 350 gigawatt hours (GWh) per year.

Corporate and exploration costs have been considerably reduced with the postponement of further drilling and other exploration activities. Substantial cost reductions with the reduced reliance on external consultants and contractors were completed by the end of calendar 2008. Further initiatives in cost curtailment covering operational and administrative costs were in process as at the end of calendar 2008.

The Board of the Company is committed to identifying and implementing in good time such further reductions in operating and administrative costs as are necessary and in consequence to a continuing difficult trading environment in the 2009 calendar year.

### Other

The Company has commenced discussions with several substantial groups for the potential joint venture of one or more of its exploration projects with particular emphasis on coal bed methane and other hydrocarbons.

## COMPLIANCE STATEMENT

The technical information quoted in this announcement has been compiled by Mr Alan Flavelle and Mr Rod Bresnehan and geoscientists under their supervision. Mr Flavelle is a Fellow of the Australasian Institute of Mining and Metallurgy and is a member of the Society of Petroleum Engineers. Mr Bresnehan is a member of the Society of Petroleum Engineers and is Chairman of the Society of Petroleum Engineers (Australia). Mr Flavelle and Mr Bresnehan have consented to the inclusion in this report of the matters based on the information in the form and context in which it appears.

**AUDITOR'S REVIEW REPORT AND INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

The auditor's Review Report and independence declaration is set out on page 28 and forms part of the directors' report for the half-year ended 31 December 2008.

DATED at PERTH this 11th day of March 2009

Signed in accordance with a resolution of the directors:

……………………………
**Anthony J McCLURE**
**MANAGING DIRECTOR**

## CONDENSED INCOME STATEMENT
### FOR THE HALF YEAR ENDED 31 DECEMBER 2008

| | Notes | CONSOLIDATED | |
|---|---|---|---|
| | | For Half Year 31 Dec 2008 € | For Half Year 31 Dec 2007 € |
| Revenue | | 3,799,276 | - |
| Cost of sales | | (2,301,676) | - |
| **Gross Profit** | | **1,497,600** | **-** |
| Financial income | | 48,640 | 48,738 |
| Royalty income | | 10,910 | 4,402 |
| Other income | | 2,549 | 65,024 |
| Production overhead expenses | | (764,471) | - |
| Administrative expenses | | (1,148,720) | (940,526) |
| Professional fees | | (621,272) | - |
| Depreciation and amortisation charges | | (662,278) | (14,717) |
| Financial expenses | | (1,499,351) | (6,051) |
| Loss on sales of fixed assets | | (4,460) | - |
| Loss on sale of available for sale investments | | (15,342) | (29,910) |
| Other expenses | | (380,410) | (22,715) |
| **Loss before income tax** | | **(3,536,605)** | **(895,755)** |
| Income tax benefit | | 53,360 | - |
| **Net loss for the period** | | **(3,483,245)** | **(895,755)** |
| Earnings / (loss) per share [cents per share] | | | |
| From continuing operations: | | | |
| Basic | | (1.749) | (0.452) |
| Diluted | | (1.749) | (0.452) |
| From profit / (loss) for the period | | | |
| Basic | | (1.749) | (0.452) |
| Diluted | | (1.749) | (0.452) |

The accompanying notes form part of this financial report.

## CONDENSED BALANCE SHEET
## AS AT 31 DECEMBER 2008

| | Note | CONSOLIDATED | |
|---|---|---|---|
| | | **As at 31 Dec 2008 €** | **As at 30 June 2008 €** |
| **Current Assets** | | | |
| Cash and cash equivalents | | 3,021,538 | 8,815,984 |
| Trade and other receivables | | 2,799,192 | 1,772,700 |
| Prepayments | | 225,511 | 25,739 |
| Inventories | | 256,390 | 260,315 |
| **Total Current Assets** | | **6,302,631** | **10,874,739** |
| | | | |
| **Non-current Assets** | | | |
| Available for sale financial assets | | 299,058 | 677,225 |
| Property, plant & equipment | | 4,484,498 | 3,629,127 |
| Exploration & evaluation costs | 3 | 25,793,902 | 23,324,966 |
| Intangible assets | 4 | 24,343,085 | 24,779,376 |
| **Total Non-Current Assets** | | **54,920,543** | **52,410,695** |
| **Total Assets** | | **61,223,174** | **63,285,433** |
| | | | |
| **Current Liabilities** | | | |
| Trade payables & accruals | | 2,182,298 | 1,325,641 |
| Current tax liability | | 164,912 | 331,820 |
| Interest bearing liabilities | 5 | 889,170 | 848,533 |
| **Total Current Liabilities** | | **3,236,380** | **2,505,994** |
| | | | |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 5 | 34,311,580 | 33,557,827 |
| Deferred tax liability | | 98,287 | 256,613 |
| Provisions | 6 | 3,622,183 | 3,527,010 |
| **Total non-current liabilities** | | **38,032,050** | **37,341,451** |
| **Total Liabilities** | | **41,268,430** | **39,847,445** |
| | | | |
| **Net Assets** | | **19,954,744** | **23,437,989** |
| | | | |
| **Equity** | | | |
| Contributed Equity | 7 | 31,281,424 | 31,281,424 |
| Reserves | 8 | 1,656,851 | 1,656,851 |
| Accumulated Losses | | (12,983,531) | (9,500,286) |
| **Total Equity** | | **19,954,744** | **23,437,989** |

The accompanying notes form part of this financial report.

## CONDENSED CASH FLOW STATEMENT
**FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

| | CONSOLIDATED | |
|---|---|---|
| | For Half Year 31 Dec 2008 € | For Half Year 31 Dec 2007 € |
| **Cash flows from operation activities** | | |
| Receipts from customers | 3,036,770 | 7,884 |
| Payments to suppliers & employees | (4,002,132) | (966,320) |
| Borrowing costs | (23,390) | (8) |
| Interest paid on convertible notes | (543,750) | - |
| Interest received | 48,640 | 89,384 |
| Income Taxes Paid | (310,904) | - |
| **Net Cash Flows (used in)/Provided by Operating Activities** | **(1,794,766)** | **(869,059)** |
| **Cash flows from investing activities** | | |
| Payments for exploration and development expenditure | (4,063,805) | (2,179,830) |
| Payment for plant & equipment | (64,310) | (18,089) |
| Acquisition of subsidiary net of cash acquired | - | (26,657,796) |
| Proceeds from sale of equity investments | 128,435 | 1,145,578 |
| **Net cash flows used in investing activities** | **(3,999,680)** | **(27,710,138)** |
| **Cash Flows (used in)/Provided by Financing Activities** | | |
| Proceeds from issue of shares | - | 59,800 |
| Proceeds from issue of convertible notes | - | 36,375,000 |
| Costs associated with issuing convertible notes | - | (148,558) |
| **Net cash flows provided by financing activities** | **-** | **36,286,242** |
| Net Increase/(Decrease) in Cash Held | (5,794,446) | 7,707,045 |
| Cash at 1 July | 8,815,984 | 3,198,292 |
| Net foreign exchange difference | - | 143,513 |
| **Cash at 31 December** | **3,021,538** | **11,048,850** |

The accompanying notes form part of this financial report.

## CONDENSED STATEMENT OF CHANGES IN EQUITY
**FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

| | Attributable to equity holders of the parent | | | |
|---|---|---|---|---|
| **CONSOLIDATED** | **Contributed equity** | **Accumulated losses** | **Other reserves** | **Total** |
| **Balance at 1 July 2008** | 31,281,424 | (9,500,286) | 1,656,851 | 23,437,989 |
| Loss for the period | - | (3,483,245) | - | (3,483,245) |
| **Balance at 31 December 2008** | **31,281,424** | **(12,983,531)** | **1,656,851** | **19,954,744** |
| | | | | |
| **Balance at 1 July 2007** | 28,691,820 | (5,388,471) | 1,295,550 | 24,598,898 |
| Loss for the period | - | (895,755) | - | (895,755) |
| Exercise of options | 59,800 | - | - | 59,800 |
| Cost of option valuation | - | - | 530,221 | 530,221 |
| Equity component of convertible notes | 2,609,373 | - | - | 2,609,373 |
| Movement in available for sale reserve | - | - | 166,320 | 166,320 |
| Effect of translation to presentation currency | (79,569) | (355,302) | (335,240) | (770,111) |
| **Balance at 31 December 2007** | **31,281,424** | **(6,639,528)** | **1,656,851** | **26,298,746** |

The accompanying notes form part of this financial report.

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

### 1. Corporate Information

The financial report of European Gas Limited (the "company") for the half-year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 11 March 2009. European Gas Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

The principle activities of the group are:

- Production of coal mine methane gas in France; and
- Exploration and evaluation for coal bed methane and coal mine methane gas in Western Europe.

### 2. Summary of Significant Accounting Policies

The half-year financial report does not include all of the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of European Gas Limited as at 30 June 2008.

It is also recommended that the half-year financial report be considered together with any public announcements made by European Gas Limited and its controlled entities during the half-year ended 31 December 2008 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

### (a) Basis of Preparation

The half-year consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except where stated.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

*Going concern basis of preparation:*
The financial report has been prepared on a going concern basis. The Directors have assessed the going concern status of European Gas Limited and its controlled subsidiaries (the "Group") having regards to the:

- Current working capital and cash position;
- Existing commitments on tenements;
- Expenditure on account of the normal operating cycle; and
- Forecasted production and sales data for Gazonor.

Based on this assessment, the Directors are satisfied that the Group is a going concern, which assumes continuity of business for 12 months from the signing date of this report and realisation of assets and settlement of liabilities in the normal course of business.

### (b) Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2008, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2008, as described in Note 2(d).

### (c) Basis of Consolidation

The half-year consolidated financial statements comprise the financial statements of the Group. The acquisition of Gazonor S.A. on 28 December 2007 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair values of the assets acquired and the liabilities or contingent liabilities assumed at the date of acquisition.

The components of the Group are:

| | **Incorporated in** | **Parent's Interests** | |
|---|---|---|---|
| | | 31/12/2008 | 30/06/2008 |
| European Gas Limited [Parent] | Australia | - | - |
| Gazonor S.A. | France | 100% | 100% |
| European Gas S.A.S. | France | 100% | 100% |
| European Gas Limited (UK) | United Kingdom | 100% | 100% |
| Heritage Petroleum Plc | United Kingdom | 100% | 100% |
| European Gas Benelux S.A. | Belgium | 50% | - |

A branch of European Gas Limited (UK) has been registered in France to manage the exploration and evaluation activities of the Group in France and Italy.

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS

### (d) New Standards and Interpretations Not Yet Adopted

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the entity for the half year ended 31 December 2008. Amendments issued affecting the entities are outlined below:

| Title | Summary | Application date | Impact on the group |
|---|---|---|---|
| AASB 101: Presentation of Financial Statements | 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. However, it is important to note that the AASB has decided that Australian issuers must make use in financial reports of the descriptions-Statement of Financial Performance and Position rather than Balance Sheet and Income Statement and use the term "Financial Report" and not "Financial Statement." The Amending Standard updates references in various other pronouncements. | Financial year beginning 1$^{st}$ January 2009 | AASB 101 affects disclosures in the financial report, rather than the measurement or recognition of financial items.<br><br>The amendments to the standards will impact the Group's financial report disclosures for the financial year ending 30 June 2010. |
| AASB 123: Borrowing Costs | This revision eliminates the option to expense borrowing costs on qualifying assets and requires that they be capitalised. The transitional provision provided allows for prospective application of this revision from either application date or adoption date if prior to 1 January 2009. The Amending Standard eliminates reference to the expensing option in various other pronouncements. | Financial year beginning 1$^{st}$ January 2009 | Amendments to the standard would not have material impact on the Group, as the Group is currently not engaged in acquisition, construction or production of a qualifying asset noted in the standard. |
| AASB 8: Operating Segments | This standard supersedes AASB 114, Segment Reporting introducing a US GAAP approach of management reporting as part of the convergence project with FASB. This standard only applies to entities that have public accountability therefore any entities that do not fall within scope may wish to early adopt and avoid segment reporting. The Amending Standard updates references in various other pronouncements. | Financial year beginning 1$^{st}$ January 2009 | AASB 8 affects disclosures of segment reporting, rather than the measurement or recognition of financial items.<br><br>The amendments to the standards will impact the Group's financial report disclosures for the financial year ending 30 June 2010. |

Amendments / revisions to other Accounting Standards and Interpretations would not have material impact on the Group's financial report, as the Group does not engage in activities / transactions affected by those amendments / revisions.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS**

## 3. EXPLORATION & EVALUATION COSTS

Exploration expenditure costs carried forward in respect of areas of interest in:

Pre-production: Exploration and evaluation phase

| | CONSOLIDATED | |
|---|---|---|
| | **31/12/2008** | **30/06/2008** |
| Balance at the beginning of the period | 23,324,967 | 21,190,172 |
| Expenditure incurred | 2,468,935 | 2,038,208 |
| Disposal | - | (34,340) |
| Effect of translation to presentation currency | - | 130,926 |
| | **25,793,902** | **23,324,966** |

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.

## 4. INTANGIBLE ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | **31/12/2008** | **30/06/2008** |
| Goodwill [1] | 24,010,740 | 24,010,740 |
| Gas contracts (*net of amortisation)* | 286,302 | 747,490 |
| Software (*net of amortisation)* | 46,043 | 21,146 |
| | **24,343,085** | **24,779,376** |

[1] Goodwill arising on the acquisition of Gazonor has been impairment tested based on the value in use methodology. The values in use calculations apply a discounted cash flow methodology. Cash flow projections are based on European Gas management's acquisition models and 20 year business plan for Gazonor and are determined based on expected market trends and the expected impact of the key assumptions of gas production, gross margin and operating costs. The cash flow projections are discounted using a pre-tax discount rate of 10.0 percent.

## 5. INTEREST BEARING LIABILITIES

| | CONSOLIDATED | |
|---|---|---|
| | **31/12/2008** | **30/06/2008** |
| | **€** | **€** |
| *Current* | | |
| Convertible Note | | |
| – Debt component at amortised cost | 889,170 | 843,533 |
| | **889,170** | **843,533** |
| *Non-Current* | | |
| Convertible Note | | |
| – Debt component at amortised cost | 34,311,580 | 33,557,827 |
| | **34,311,580** | **33,557,827** |

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.

## 5. INTEREST BEARING LIABILITIES (cont'd)

- Conversion price: €0.75 per Note.
- 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.

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.

## 6. PROVISIONS

| | CONSOLIDATED | |
|---|---|---|
| | 31/12/2008 | 30/06/2008 |
| | € | € |
| Provision for asset restoration and rehabilitation | | |
| Balance at the beginning of the reporting period | 3,527,010 | - |
| - at acquisition of Gazonor | - | 3,399,819 |
| - amortisation of provisions | 95,173 | 127,191 |
| Balance at the end of the reporting period | **3,622,183** | **3,527,010** |

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

## 7. CONTRIBUTED EQUITY

| | CONSOLIDATED | | CONSOLIDATED | |
|---|---|---|---|---|
| | 31/12/2008 | 30/06/2008 | 31/12/2008 | 30/06/2008 |
| | Nos. | Nos. | € | € |
| At the beginning of the reporting period | 199,155,662 | 198,155,662 | 31,281,424 | 31,281,424 |
| Shares issued during the period | - | - | - | - |
| **At reporting date** | **199,155,662** | **199,155,662** | **31,281,424** | **31,281,424** |

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | 31/12/2008 | | 30/06/2008 | |
| | Nos. | Exercise Price | Nos. | Exercise Price |
| **Outstanding options** | | | | |
| Unlisted options expiring on: | | | | |
| 28-November-2008 | - | - | 4,000,000 | $ 1.00 |
| 28-November-2010 | 4,000,000 | $ 1.50 | 4,000,000 | $ 1.50 |
| 28-February-2009 | 1,563,269 | $ 1.00 | 1,563,269 | $ 1.00 |
| 15-April-2010 | 3,500,000 | $ 1.50 | 3,500,000 | $ 1.50 |
| 15-April-2012 | 3,500,000 | $ 2.50 | 3,500,000 | $ 2.50 |
| | **12,563,269** | | **16,563,269** | |

*Movement in unlisted options:*

| | |
|---|---|
| Balance at 30 June 2008 | 16,563,269 |
| Expiry of options | (4,000,000) |
| Balance at 31 December 2008 | **12,563,269** |

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS**

## 8. RESERVES

| Consolidated | Option valuation reserve | Foreign Currency Translation Reserve | Available for sale investments reserve | Total |
|---|---|---|---|---|
| **31-December-2008** | | | | |
| Balance at the beginning of the period | 1,692,733 | (35,882) | - | 1,656,851 |
| **At reporting date** | **1,692,733** | **(35,882)** | **-** | **1,656,851** |
| | | | | - |
| **30-June-2008** | | | | |
| Balance at the beginning of the year | 1,164,797 | 306,055 | (175,415) | 1,295,437 |
| Options granted during the year | 530,221 | - | - | 530,221 |
| Movement in available for sale investments reserve | - | - | 166,320 | 166,320 |
| Effect of translation to presentation currency. | (2,285) | (341,937) | 9,095 | (335,127) |
| **At reporting date** | **1,692,733** | **(35,882)** | **-** | **1,656,851** |

## 9. BUSINESS COMBINATION

On 28 December 2007, European Gas Limited acquired 100% of the voting shares of Gazonor S.A, a company incorporated in France, which was owned by Filianor S.A., a wholly owned subsidiary of Charbonnages de France, the French state owned Coal Mining Corporation.

The total cost of the combination was €26,992,213. The Group funded this transaction via the issue of convertible notes.

The fair value of the identifiable assets and liabilities of Gazonor S.A. as at the date of acquisition are:

## 9. BUSINESS COMBINATION (cont'd)

| | CONSOLIDATED | |
|---|---|---|
| | Recognised on acquisition | Carrying value |
| | **€** | **€** |
| Cash and cash equivalents | 334,417 | 334,417 |
| Trade receivables | 1,177,261 | 1,177,261 |
| Inventories | 277,741 | 277,741 |
| Property Plant & Equipment | 3,530,975 | 3,530,975 |
| Customer contracts | 2,320,550 | - |
| | **7,640,944** | **5,320,994** |
| Trade payables | 463,007 | 475,082 |
| Provision for rehabilitation | 3,399,819 | 3,399,819 |
| Deferred tax liability | 796,645 | - |
| | **4,659,471** | **3,874,901** |
| Fair value of identifiable net assets | **2,981,473** | |
| Goodwill arising on acquisition | 24,010,740 | |
| | **26,992,213** | |
| Cost of the combination: | | |
| Cash consideration paid to the vendor | 26,200,000 | |
| Costs associated with the acquisition | 792,213 | |
| Total cost of the combination | **26,992,213** | |

| | |
|---|---|
| The cash outflow on acquisition is as follows: | |
| Net cash acquired with the subsidiary | 334,417 |
| Cash paid | (26,200,000) |
| Costs associated with the acquisition | (792,213) |
| Net cash outflow | **(26,657,796)** |

As disclosed at the previous reporting date additional information was required to be obtained in relation to provisions for maintenance items for the servicing of plant and equipment, and thus was excluded from the calculation. This information has now been sourced and clarified, and in accordance with AASB 3 the business combination has now been finalised within 12 months of acquisition date. The additional information affected an increase of €1,144,511 in the recognised assets and an increase in the provision for rehabilitation of €1,144,511. There has been no change in the overall calculation of Goodwill arising upon the acquisition.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORTS**

## 10. EVENTS AFTER BALANCE SHEET DATE

Since the balance sheet date of 31 December 2008, unlisted options to the amount of 1,563,269 at an exercise price of $1.00 had expired as at 28 February 2009. There have been no other matters or circumstances arisen since the end of the half year which have significantly affected or may significantly affect the operations or state of affairs of the consolidated entity in the future financial years.

## 11. CONTINGENT ASSETS AND 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 is detailed below:

On June 28, 2002, Gazonor entered into a contract with Société Artésienne de Vinyle ("SAV") for the supply of mine gas to SAV. On April 12, 2007, Gazonor gave notice to SAV of its intent to terminate supply following expiration of the three-month notice period required under the contract, in the event of failure by the parties to agree upon a new rate applicable to the future supply of mine gas.

On July 10, 2007, in light of SAV's refusal to pay outstanding supply invoices, Gazonor summoned SAV before the Commercial Chamber of the Béthume District Court, demanding payment of €410,288 in unpaid invoices and €100,000 in damages.

On July 12, 2007, SAV in turn summoned Gazonor before the same court, demanding compensation for operating losses sustained in an amount of €1,456,330. This amount was subsequently increased to €1,940,555 by SAV.

In a judgment dated March 5, 2008, the Commercial Chamber of the Béthune District Court ordered the joinder of the two proceedings and dismissed Gazonor's claim, declaring Gazonor liable for the termination of the gas supply contract as well as for the resulting losses suffered by SAV. The District Court postponed the hearing of the claim to a later date in order to assess the losses suffered by SAV.

On April 3, 2008, Gazonor filed an appeal of the judgment dated March 5, 2008 before the Douai Court of Appeals. In light of the pending appeal, the Béthume District Court has postponed assessing the losses claimed by SAV until a decision is made on appeal.

In its brief filed on August 4, 2008, Gazonor demanded that the Douai Court of Appeals overturn the Béthune District Court decision dated March 5, 2008 and that it find SAV liable for the payment of €410,591 plus €100,000 in damages.

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, in the context of the acquisition.

Gazonor filed conclusions at the Douai Appeal Court on 5$^{th}$ February 2009. The court has set a new hearing date scheduled on 14$^{th}$ May 2009, in order for SAV to reply to Gazonor's brief.

## COMPANY DETAILS

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Web site: www.europeangas.com.au

## DIRECTORS' DECLARATION

In the opinion of the directors of European Gas Limited:

1. The financial statements and notes set out on pages 12 to 25 are in accordance with the Corporations Act 2001 including:

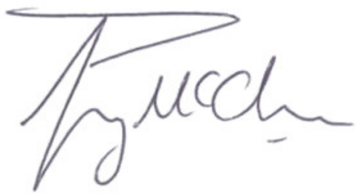
   (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2008 and of its performance, as represented by the results of its operations and cash flows for the half- year ended on that date; and.

   (b) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

DATED at PERTH this 11th day of March 2009

Signed in accordance with a resolution of the Directors.



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**Anthony J McCLURE**
**Managing Director**

Chartered Accountants
& Business Advisers

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of European Gas Limited for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of European Gas Limited and the entities it controlled during the half year.

PKF

**PKF**
Chartered Accountants

Chris Nicoloff

**Chris Nicoloff**
Partner

Dated at Perth, Western Australia this 11th day of March 2009

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Chartered Accountants
& Business Advisers

**INDEPENDENT AUDITOR'S REVIEW REPORT**

**TO THE MEMBERS OF EUROPEAN GAS LIMITED**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of European Gas Limited and its Controlled Entities, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2008 or from time to time during the half year ended on that date.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of European Gas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Chartered Accountants
& Business Advisers

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of European Gas Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

**PKF**
Chartered Accountants

**Chris Nicoloff**
Partner

Dated at Perth, Western Australia this 11th day of March 2009