PATERSONS
OUR EXPERIENCE. YOUR ADVANTAGE.
Incorporating Tolhurst and William Noall.

Gazonor Expansion Progressed

Investment Summary

- **We are upgrading EPG to a BUY recommendation with a price target of $0.32/sh following recent funding initiatives and progress towards a fuller development at Gazonor.** This is based on pre-feasibility studies into expanding production at Gazonor and the recently announced HOA with Verdesis. We highlight that our recommendation is speculative until an agreement to progress expanded facilities is reached. Additionally, production for the Sep Q will likely be down 30-40% due to seasonal demand.

- **A$10m finance facility secured.** EPG today announced a A$10m Equity Line of Credit Agreement with US-based Investment Manager Yorkville Advisors, LLC. The facility, which allows for the issue of shares to Yorkville over a 60-month period at market price (and 4% commission), will provide working capital and potentially fund the completion of production testing at the company's Lorraine permit.

- **HOA with Verdesis provides for potential electricity generation project.** Verdesis is a subsidiary of EDF Energies Nouvelles, a market leader in renewables. While at a preliminary level, the HOA forms the basis for investigation into commercial arrangements which may include gas offtake and the development of electricity generation capacity at Gazonor.

- **Completion of prefeasibility study at Gazonor.** The Verdesis HOA follows the recently announced completion of a pre-feasibility study into expansion of operations at Gazonor including both increased gas and electricity sales. EPG estimate a project NPV of between A$120m to A$189m. Our analysis confirms this potential for additional value via the addition of 4 x 4.8MW power generators.

- **Development to de-risk EPG.** The 24,250 convertible notes are secured against Gazonor and expire at the end of 2010. Expansion of the project will better efforts to refinance/re-negotiate the debt. EPG's substantial CSG resource remains largely unexplored due to funding constraints. The expanded Gazonor project would provide additional cash flow to fund exploration however a larger initiative/farm-in is required to facilitate a more timely program.

Year End June 30	2007A	2008A	2009F	2010F	2011F
A$					
Reported NPAT ($m)	(1.5)	(6.2)	(7.8)	(4.1)	5.7
Recurrent NPAT ($m)	(1.5)	(6.2)	(7.8)	(4.1)	5.7
Recurrent EPS (cents)	(0.8)	(3.1)	(3.9)	(2.0)	2.3
EPS Growth (%)	na	na	na	na	na
PER (x)	(32.3)	(8.0)	(6.4)	(12.2)	10.9
EBITDA ($m)	(1.5)	(1.6)	(1.6)	0.4	15.4
EV/EBITDA (x)	(32.9)	(65.3)	(71.2)	253.6	8.5
Capex ($m)	0.0	0.2	0.0	3.9	0.9
Free Cashflow	(7.8)	(7.9)	(12.3)	(6.6)	4.6
FCFPS (cents)	(3.9)	(4.0)	(6.2)	(3.3)	1.9
PFCF (x)	(6.4)	(6.3)	(4.1)	(7.6)	13.4
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

17 August 2009

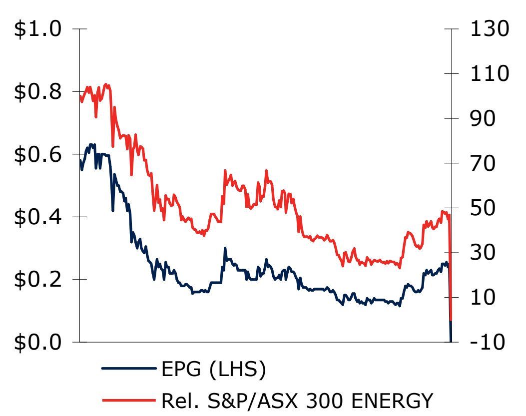
12mth Rating		**BUY**
Price	A$	0.25
Target Price	A$	0.32
12m Total Return	%	28.4
RIC: **EPG.AX**		BBG: **EPG AU**
Shares o/s	m	199.7
Free Float	%	100.0
Market Cap.	A$m	49.9
Net Debt (Cash)	A$m	-70.7
Net Debt/Equity	%	na
3m Av. D. T'over	A$m	0.18
52wk High/Low	A$	0.63/0.00
2yr adj. beta		0.74

Valuation:

Methodology		DCF
Value per share	A$	0.32

Analyst: Scott Simpson
Phone: (+61 8) 9263 1679
Email: ssimpson@psl.com.au

12 Month Share Price Performance

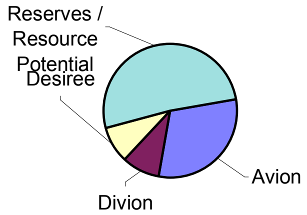


Performance %	1mth	3mth	12mth
Absolute	54.5	64.5	-56.0
Rel. S&P/ASX 300	31.2	44.2	-50.6

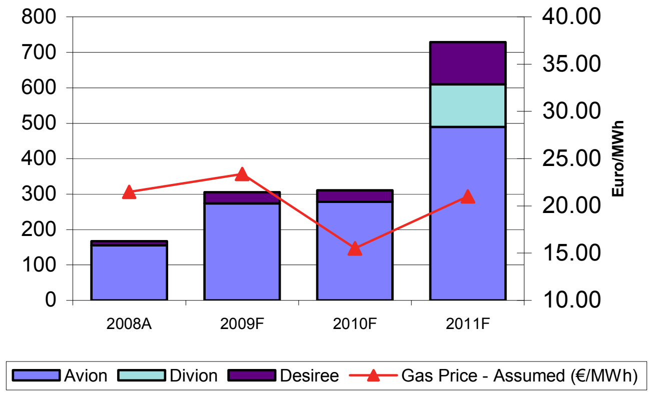
European Gas (EPG)		$0.25	
Valuation	**A$m**		**A$/sh**
Avion	44.66		0.22
Divion	13.45		0.07
Desiree	13.14		0.07
Add. Reserves / Resource Potential	75		0.38
Corporate	(20)		(0.10)
Cash	4		0.02
Debt	(67)		(0.33)
Total @ 10% Discount Rate	**64**		**0.32**
Price Target			**0.32**

Valuation Sensitivity	**-10%**	**0%**	**+10%**
Gas Price Sensitivity (A$/sh)	0.26	0.32	0.38
Exchange Rate Sensitivity (A$/sh)	0.32	0.32	0.33

Valuation Summary of Operating Assets



Production Summary (GWh/year)



Reserves

Reserves - Net EPG	**Oil/Cond (mmbbl)**	**Gas (PJ)**	**Total (mboe)**
as at July 2008			
Gazonor			
1P	0.0	49.0	8.2
2P	0.0	140.0	23.3
3P	0.0	380.0	63.3

Directors

Name	**Position**
Anthony McClure	Managing Director
Alan Flavelle	Executive Director
Terence Willsteed	Non-Executive Director
Gauthier De Potter	Non-Executive Director
Mark E Pitts	Company Secretary

Substantial Shareholders	**Shares (m)**	**%**
Maoming China Fund	25.6	12.8
Ward Ferry Management Ltd	12.1	6.1

Year End June 30

Commodity Assumptions	**2008A**	**2009F**	**2010F**	**2011F**
A$:US$	0.90	0.75	0.81	0.84
A$:Euro	1.65	1.85	1.76	1.70
Crude Oil - WTI (USD/bbl)	96.97	69.65	67.50	84.07
Gas Price - Assumed (€/MWh)	21.50	23.37	15.49	21.00
Gas Price - Assumed (A$/GJ)	9.83	12.09	7.58	9.93

Production Summary	**2008A**	**2009F**	**2010F**	**2011F**
Production				
Avion (PJ)	1.1	1.0	1.0	2.0
Divion (PJ)	0.1	0.0	0.0	0.5
Desiree (PJ)	0.1	0.1	0.1	0.5
Total (PJ)	**1.3**	**1.1**	**1.1**	**2.9**
Gas Sales				
Avion (GWh)	156	274	278	490
Divion (GWh)	0	0	0	120
Desiree (GWh)	11	31	32	120
Total (GWh)	**167**	**305**	**310**	**730**

Profit & Loss (€$m)	**2008A**	**2009F**	**2010F**	**2011F**
Sales Revenue	**3.7**	**8.0**	**4.8**	**15.3**
Other Income	1.0	0.1	0.0	0.1
Operating Costs	2.1	5.3	2.5	4.2
Exploration Exp.	0.0	0.0	0.0	0.0
Corporate/Admin	3.6	3.6	2.0	2.1
Royalty	0.0	0.0	0.0	0.1
EBITDA	**(1.0)**	**(0.9)**	**0.3**	**9.0**
Depn & Amort	1.6	1.1	0.6	1.5
EBIT	**(2.6)**	**(1.9)**	**(0.4)**	**7.5**
Interest	1.4	2.2	1.9	2.4
Operating Profit	**(4.0)**	**(4.2)**	**(2.3)**	**5.1**
Tax expense	(0.2)	0.0	0.0	1.8
Minorites	0.0	0.0	0.0	0.0
Discontinued Operations	0.0	0.0	0.0	0.0
NPAT	**(3.8)**	**(4.2)**	**(2.3)**	**3.3**
Normalised NPAT	**(3.8)**	**(4.2)**	**(2.3)**	**3.3**

Cash Flow (€$m)	**2008A**	**2009F**	**2010F**	**2011F**
Adjusted Net Profit	(3.8)	(4.2)	(2.3)	3.3
+ Interest/Tax/Expl Exp	1.4	2.3	1.9	4.2
- Interest/Tax/Expl Inc	4.9	7.6	1.7	5.8
+ Depn/Amort	1.6	1.1	0.6	1.5
+/- Other	1.0	1.9	(0.1)	0.0
Operating Cashflow	**(4.7)**	**(6.6)**	**(1.5)**	**3.2**
- Capex (+asset sales)	0.1	0.0	2.2	0.5
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(4.8)**	**(6.6)**	**(3.7)**	**2.7**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.1	0.0	0.1	0.0
+ Debt drawdown (repaid)	36.2	0.0	2.0	0.0
+ Other	(25.7)	0.1	0.0	0.0
Net Change in Cash	**5.8**	**(6.5)**	**(1.7)**	**2.7**
Cash at End Period	8.8	2.3	0.7	3.4
Net Cash/(Debt)	(25.6)	(32.9)	(34.5)	(37.2)

Balance Sheet (€$m)	**2008A**	**2009F**	**2010F**	**2011F**
Cash	8.8	2.3	0.7	3.4
Total Assets	62.1	60.5	61.0	64.7
Total Debt	34.4	35.2	35.2	40.6
Total Liabilities	38.7	40.6	43.3	43.7
Shareholders Funds	23.4	20.0	17.6	21.0
Ratios				
Net Debt/Equity (%)	109.2	164.7	195.8	177.6
Interest Cover (x)	na	na	na	3.1
Return on Equity (%)	na	na	na	15.9

Research

Mark Simpson – Head of Research	Phone:	(+61 8) 9263 1678	Email:	msimpson@psl.com.au
Andrew Quin - Research Strategy Coordinator	Phone:	(+61 8) 9263 1152	Email:	aquin@psl.com.au
Resources				
Andrew Harrington – Coal Analyst	Phone:	(+61 2) 8238 6214	Email:	aharrington@psl.com.au
Alex Passmore – Head of Metals & Mining	Phone:	(+61 8) 9263 1239	Email:	apassmore@psl.com.au
Scott Simpson – Oil & Gas Analyst	Phone:	(+61 8) 9263 1679	Email:	ssimpson@psl.com.au
Levi Spry – Resources Analyst	Phone:	(+61 8) 9263 1610	Email:	lspry@psl.com.au
Josh Welch – Resources Analyst	Phone:	(+61 8) 9263 1668	Email:	jwelch@psl.com.au
Industrials				
Allan Franklin – Assistant Analyst	Phone:	(+61 8) 9263 1151	Email	afranklin@psl.com.au
Anita Lofthouse – Industrial Analyst	Phone:	(+61 3) 9224 4410	Email:	alofthouse@psl.com.au
Ben Kakoschke – Materials Analyst	Phone:	(+61 3) 9242 4181	Email:	bkakoschke@psl.com.au
David Gibson – Industrial Analyst	Phone:	(+61 8) 9263 1664	Email	dgibson@psl.com.au
George Galanopoulos – Industrial Analyst	Phone:	(+61 3) 9242 4172	Email:	ggalanopoulos@psl.com.au
Graeme Carson – Industrial Analyst	Phone:	(+61 3) 9242 4176	Email:	gcarson@psl.com.au
Jonathan Kriska – Diversified Financials & REIT Analyst	Phone:	(+61 2) 8238 6245	Email:	jkriska@psl.com.au
Kien Trinh – Quantitative Analyst	Phone:	(+61 3) 9242 4027	Email:	ktrinh@psl.com.au
Mark Barsdell – Quantitative Analyst	Phone:	(+61 3) 9242 4187	Email:	mbarsdell@psl.com.au
Russell Wright - Retail Analyst	Phone:	(+61 2) 8238 6219	Email:	rwright@psl.com.au
Institutional Dealing				
Phil Schofield	Phone:	(+61 2) 8238 6223	Email:	pschofield@psl.com.au
Michael Brindal	Phone:	(+61 2) 8238 6274	Email:	mbrindal@psl.com.au
Dan Bahen	Phone:	(+61 2) 8238 6237	Email:	dbahen@psl.com.au
Paul Doherty	Phone:	(+61 3) 8803 0108	Email:	pdoherty@psl.com.au
Trent Foxe	Phone	(+61 2) 8238 6265	Email:	tfoxe@pls.com.au
Andrew Frazer	Phone:	(+61 8) 9263 1241	Email:	afrazer@psl.com.au
Jason Lal	Phone:	(+61 2) 8238 6276	Email:	jlal@psl.com.au
Ben McIlvride	Phone:	(+61 2)8238 6253	Email:	bmcilvride@psl.com.au
Jeremy Nugara	Phone:	(+61 3) 8803 0166	Email:	jnugara@psl.com.au
Trevor Pike	Phone:	(+61 3) 8803 0110	Email:	tpike@psl.com.au
Nicholas Whiteley	Phone:	(+61 2)8238 6244	Email:	nwhiteley@psl.com.au
Sandy Wylie	Phone:	(+61 8) 9263 1232	Email:	swylie@psl.com.au

Disclaimer: Patersons believes that the information or advice (including any financial product advice) contained in this report has been obtained from sources that are accurate at the time of issue, but it has not independently checked or verified that information and as such does not warrant its accuracy or reliability. Except to the extent that liability cannot be excluded, Patersons accepts no liability or responsibility for any direct or indirect loss or damage caused by any error in or omission from this report. You should make and rely on your own independent inquiries.

If not specifically disclosed otherwise, investors should assume that Patersons is seeking or will seek corporate finance business from the companies disclosed in this report.

Warning: This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual financial circumstances and investment objectives.

Disclosure: Patersons, its director and/or employees may earn brokerage, fees, commissions and other benefits as a result of a transaction arising from any advice mentioned in this report. Patersons as principal, its directors and/or employees and their associates may hold securities in the companies the subject of this report, as at the date of publication. These interests did not influence Patersons in giving the advice contained in this report. Details of any interests may be obtained from your adviser. Patersons as principal, its directors and/or employees and their associates may trade in these securities in a manner which may be contrary to recommendations given by an authorised representative of Patersons to clients. They may sell shares the subject of a general 'Buy' recommendation, or buy shares the subject of a general 'Sell' recommendation.

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-5% to +5% total return) and Sell (> 5% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management.This Document is not to be passed on to any third party without our prior written consent.

Participant of ASX Group
Securities & Derivatives Industry Association Principal Member
Financial Planning Association Principal Member
Patersons Securities Limited ABN 69 008 896 311 AFSL 239 052

PATERSONS
OUR EXPERIENCE. YOUR ADVANTAGE.

Western Australia

Perth Office
Level 23, Exchange Plaza,
2 The Esplanade,
Perth, WA 6000
T: (+61 8) 9263 1111
F: (+61 8) 9325 6452
E: patersons@psl.com.au

West Perth Office
Level 2, 34 Colin Street,
West Perth, WA 6005
T: (+61 8) 9482 0900
F: (+61 8) 9482 0999
E: patersons@psl.com.au

Albany Office
Level 2, Middleton Centre,
184-186 Aberdeen Street,
Albany, WA 6330
T: (+61 8) 9842 4700
F: (+61 8) 9841 4211
E: albany@psl.com.au

Bunbury Office
Suite 3, 53 Victoria Street
Bunbury, WA 6230
T: (+61 8) 9707 2000
F: (+61 8) 9721 1840
E: bunbury@psl.com.au

Busselton Office
Suite 1, 72 Duchess Street,
Busselton, WA 6280
T: (+61 8) 9754 0700
F: (+61 8) 9754 4333
E: busselton@psl.com.au

Kalgoorlie Office
63 Hannan Street,
Kalgoorlie, WA 6430
T: (+61 8) 9021 1422
F: (+61 8) 9021 8133
E: kalgoorlie@psl.com.au

Geraldton Office
70 Forrest Street,
Geraldton, WA 6530
T: (+61 8) 9964 3800
F: (+61 8) 9964 5811
E: geraldton@psl.com.au

Victoria

Melbourne Office
Level 15, 333 Collins Street,
Melbourne, VIC 3000
T: (+61 3) 9242 4000
F: (+61 3) 9242 4040
E: melbourne@psl.com.au

Mt Waverley Office
284 Stephensons Road,
Mt Waverley, VIC 3149
T: (+61 3) 9831 5000
F: (+61 3) 9809 5746
E: mtwaverley@psl.com.au

New South Wales

Sydney Office
Level 27, 264 George Street,
Sydney, NSW 2000
T: (+61 2) 8238 6222
F: (+61 2) 8238 6266
E: sydney@psl.com.au

Lismore Office
Suite 1, The Professional Centre,
105 Molesworth Street,
Lismore, NSW 2480
T: (+61 2) 6623 3300
F: (+61 2) 6623 3399
E: lismore@psl.com.au

Queensland

Brisbane Office
Level 37, Riverside Centre,
123 Eagle Street,
Brisbane, QLD 4000
T: (+61 7) 3737 8000
F: (+61 7) 3737 8100
E: brisbane@psl.com.au

Gold Coast Office
Suite 2, Ground Level,
Gold Coast Financial Centre,
128 Bundall Road,
Bundall, QLD 4217
T: (+61 7) 5631 2300
F: (+61 7) 5631 2399
E: goldcoast@psl.com.au

Cairns Office
Suite 5, 188 Mulgrave Road,
Westcourt, Cairns, QLD 4000
T: (+61 7) 4046 0200
F: (+61 7) 4046 0220
E: cairns@psl.com.au

Gladstone Office
136 Goondoon Street,
Gladstone, QLD 4680
T: (+61 7) 4973 1000
F: (+61 7) 4973 1010
E: gladstone@psl.com.au

Sunshine Coast Office
Level 3, Bryant House,
26 Duporth Avenue,
Maroochydore, QLD 4558
T: (+61 7) 5409 6100
F: (+61 7) 5409 6199
E: sunshinecoast@psl.com.au

South Australia

Adelaide Office
Level 20, 25 Grenfell Street,
Adelaide, SA 5000
T: (+61 8) 8407 5700
F: (+61 8) 8407 5717
E: adelaide@psl.com.au

Australian Capital Territory

Canberra Office
Level 4, Patersons Securities
House,
53 Blackall Street,
Barton, ACT 2600
T: (+61 2) 6120 2222
F: (+61 2) 6273 3433
E: canberra@psl.com.au