



June 2008 QUARTERLY REPORT

EUROPEAN GAS LIMITED

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Shares on Issue: 199,155,662

Conv. Notes: 48,500,000

Options: 16,563,269

ASX Code: EPG

Board of Directors

Anthony J McClure (Managing Director)

Alan J Flavelle (Exec. Director)

Terence V Willsted (Non Exec. Director)

Company Secretary

Mark E Pitts

HIGHLIGHTS

Gazonor, France

- Gas sales of 59,190 MWh (0.21 PJ) for the quarter.
- Average sales price of €23.00 per MWh (€6.38 per GJ) for the quarter.
- A 50% increase in 1P reserves to 49 Petajoules.
- Inaugural 2P reserves of 140 Petajoules and 3P reserves of 380 Petajoules.
- Estimates are based on current production facilities only, hence reserve increases are expected with further development.
- Coal bed methane resource calculations in progress.
- New permit application submitted.

Lorraine, France

- Spudding of the Folschviller 2 appraisal (production test) well at the Lorraine Project in eastern France.
- First lateral well successfully completed.
- A maximum of five laterals will be drilled with each lateral planned to extend for over 200 metres into each seam.
- New permit application submitted.

Benelux Joint Venture

- Joint Venture in Benelux countries entered with Transcor Astra Group (subsidiary of Compagnie Nationale à Portefeuille S.A.).

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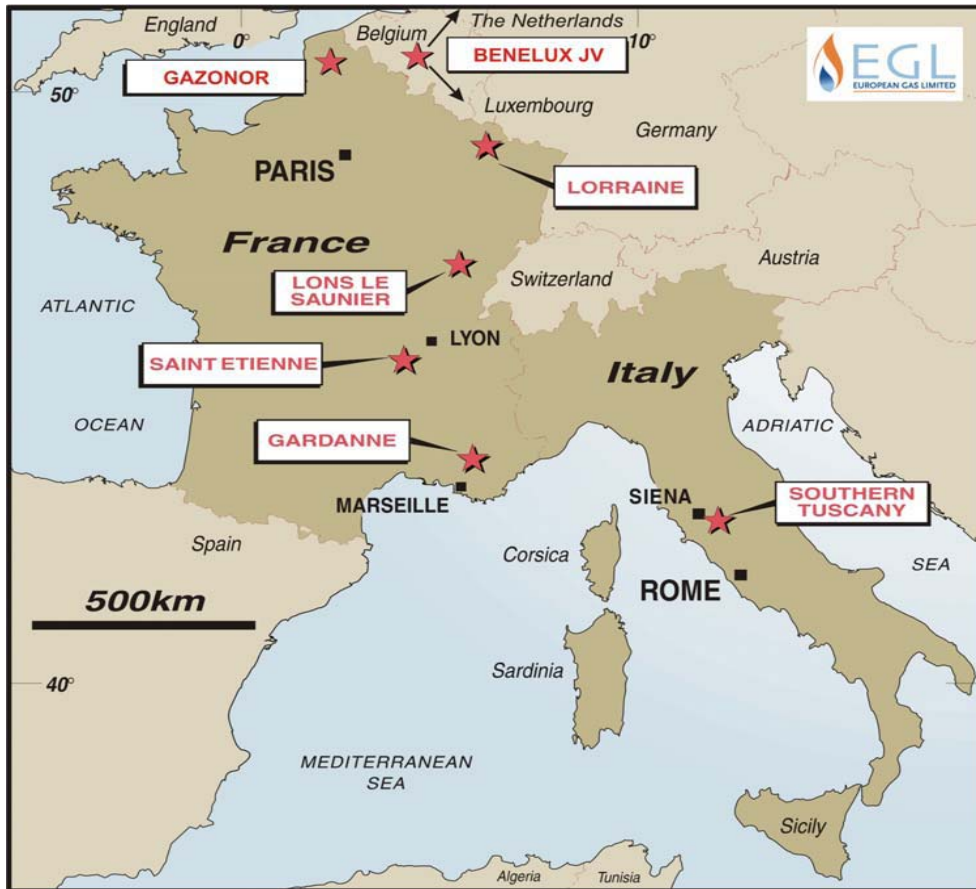


Figure 1. European Gas Project Areas

GAZONOR S.A., FRANCE

On 28 December 2007, the Company acquired 100% of the issued capital of Gazonor S.A. (“Gazonor”).

History

For a period of 25 years and since 1992, Gazonor has held the gas exploitation rights over the Poissonnière and Désirée permits situated in the districts of Nord - Pas de Calais in the north west of France, comprising a total area of 578.6 square kilometres (km²) with an extension of the Poissonnière permit of 187.5 km² under application. A further area of 432.6 km² is under application for an exploration permit (See Figure 2).

Coal has been mined in these districts since 1820 and termination of mining activities commenced in about 1950 and the extraction of coal mine methane (“CMM”) from the permits commenced for industrial use in 1979. The last mines were closed in 1992, whilst CMM extraction continued from three main processing sites, Avion and Divion in the Poissonnière permit and Désirée in the Désirée permit.

Until the end of 2007, 2,160 million cubic metres (Mm³) (76 billion cubic feet (“Bcf”)) of gas has been extracted with an average methane content of approximately 54%. In the last five reported years to the end of 2007, gas production has averaged 76.8 Mm³ per year (2.7 Bcf) with an average methane content of 54.4%.

Process Description

Typically, CMM is extracted under very low mine pressure through degasification wells drilled into the old underground workings, gathered and transported to the central processing facilities at Avion and Désirée

where it is filtered, compressed, dehydrated, odorised and measured for quality and quantity under gas sales agreements.

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 sites the gas is compressed to between 300 and 350 kPag for supply of gas under a sales agreement with a local industry through buried steel gas pipelines.

The Divion production site is currently shut in due to a pricing dispute dating back to mid 2007.

Gas Sales

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

Sales		Average Price Received	
MWh	PJ	€/MWh	€/GJ
59,190	0.21	23.00	6.38

Gas sales for the quarter were reduced compared to the March 2008 (gas sales 111,238 MWh (0.40 PJ)) due to the typical seasonal variations of the summer months where less gas can be injected into the national grid.

Reserves and Resources

Subsequent to the end of the quarter, the Company announced that proven, probable and possible reserves have increased substantially at the Gazonor project.

The estimates were carried out by independent Deutsche Montan Technologie GmbH of Essen, Germany (“DMT”) on behalf of European Gas.

The estimates confirm 1P (Proved) reserves at 49 Petajoules (PJ), 2P (Proved and Probable) reserves at 140 PJ, and 3P (Proved, Probable and Possible) reserves at 380 PJ.

The updated 1P reserves represent an increase of 50% to the previous estimates. The 2P and 3P reserve estimates are inaugural.

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

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.

These reserve estimates assume that current commercial production will continue using the existing infrastructure. No account has been taken of the enhanced production which is expected to result from the installation of additional pumping stations and development drilling. Similarly the company is re-evaluating the recoverable desorbable gas volume based on a more detailed model for sub-surface pressure distribution in the de-stressed coal. When complete this is likely to result in the re-rating of the coal mine methane based reserves.

In addition, the Company is in the process of the determination of coal bed methane resources at Gazonor

Development

The Company is assessing several options for the continued development of the Gazonor assets. Included in these options and subject to the outcome of a detailed feasibility study to be completed in the second half of calendar 2008, European Gas intends to refurbish the gas processing facilities at the Avion site and may look to redevelop the Divion and Désirée sites to generate electricity.

A detailed reservoir study of Gazonor has commenced with the view of optimising the recoverable CMM reserves and the expansion of resources. In addition, the reservoir study will focus on the substantial CBM potential. Although approximately 2.5 billion tonnes of coal were extracted during the mining era, this only represents approximately 10% of the original coal in place above 1500 metres. Depending on the outcome of the reservoir study, the ensuing exploration program is likely to comprise of at least two stratigraphic wells in early 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 and additional 360 square kilometres.

Principal activities during the quarter focused on the commencement of drilling activities at Folschviller 2 appraisal (or production test) well being drilled at a site 850 metres east of the town of Folschviller and immediately adjacent to company's Folschviller St 1 stratigraphic well (see Figure 2.).

The first lateral completion has been successful and has drilled a total of 215 metres of coal and gassy sediments. The target has been the coal of the Marie-Maurice-Noirel seam. In an adjacent core hole, a net coal thickness of 10.3 metres and an average gas content of 9.9 cubic metres per tonne (m³/t) or 350 standard cubic feet per tonne (Scf/t) was recorded. The lateral terminated at 1025.2 metres true vertical depth (TVD). The seam is well consolidated and uniformly structured with strong natural fracturing and minor faulting. Mud gas readings in the coals and adjacent sediments are high to very high and include significant values for ethane and the higher gases.

The challenges of drilling horizontally through coal seams in this region have been successfully met and as a result the risks associated with development options have been significantly reduced.

As at the date of this report, the next of up to four more laterals in the three coal seams at Folschviller was advanced.

Production testing will follow the completion of drilling to assist the planning of subsequent production wells. These tests will be used to determine reserves, deliverability and evaluate the application of a lateral drainage strategy for appraisal and development of the Lorraine coals.

The drilling contractor for the Folschviller 2 program is S.M.P. of Château-Renard, France with directional services provided by Target Well Control of Aberdeen, UK.

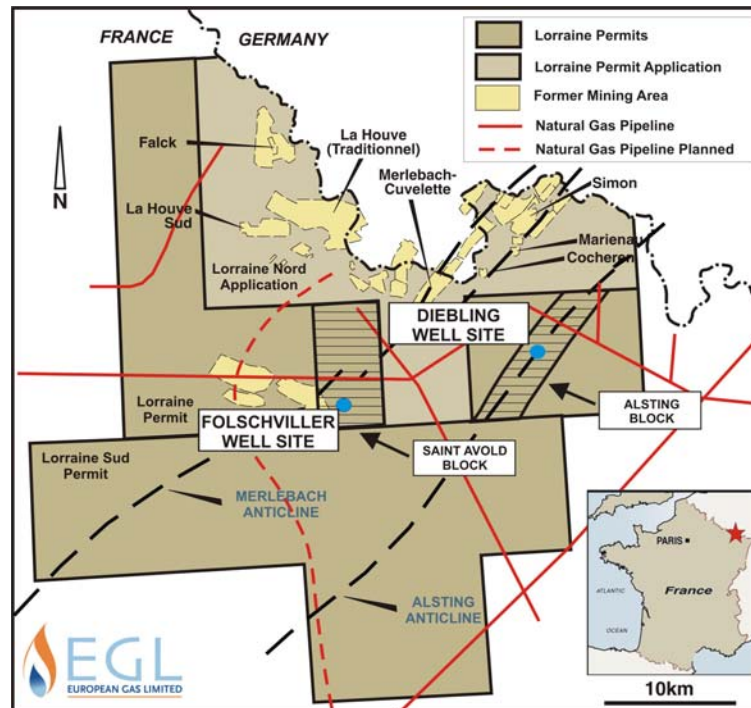


Figure 2. Lorraine Project Development Areas

The program is in preparation for the development of the large Gas in Place (GIP) resource which to date totals 28.1 billion cubic metres (991.2 billion cubic feet) within approximately 5% of the Company's Lorraine permit and application areas. This GIP resource is likely to be enhanced due to;

- in the Folschviller St1 and Diebling St1 wells, coal thicknesses were 25% to 80% higher than that used in the original GIP calculations; and
- the overall gas content values were 15% to 25% higher than those used in making the original GIP calculations.

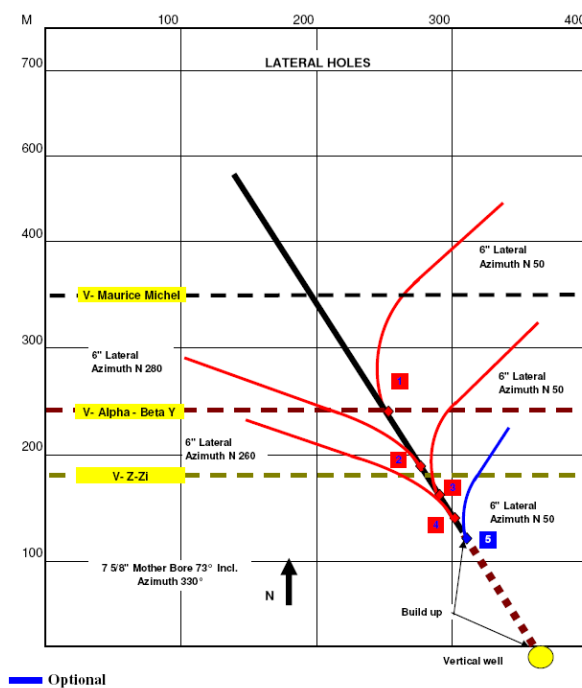


Figure3. Folschviller 2 Drill Plan

GARDANNE, SOUTHERN FRANCE

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

Two sites have been selected for appraisal drilling at Gardanne. Subject to rig availability, one well is planned for the second half of 2008 and depending on results of the first well, a second well may also be completed. The company classifies these wells as appraisal as they are 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 development of the Gas in Place (GIP) resource which to date totals 2,803 million cubic metres (99.1 billion cubic feet).

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. Two sites, one north and one south of the Lons le Saunier township have been selected for initial drilling. In each case, the target coals are at depths less than 1000 metres below the surface. Subject to completion of permitting and the mobilisation of an appropriate drilling rig, it is planned to commence drilling in late 2008.

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. It is planned, using a small rig to drill a hole into the top of the target mined out area which is established to be 600 metres below the surface. Timing for this test will depend on completion of permitting and the mobilisation of the appropriate rig.

SOUTHERN TUSCANY, ITALY

Three permit areas covering a total of 1,553 km² in have are 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.

BENELUX JOINT VENTURE

During the quarter, European Gas and Compagnie Nationale à Portefeuille S.A. ("CNP") through its subsidiary Transcor Astra Group ("Transcor") announced that they have entered into an Agreement and have incorporated a Joint Venture company ("Benelux JV").

Benelux JV has been created for the purposes of securing title, exploring, developing, extraction and marketing of hydrocarbons including coal bed methane, coal mine methane and conventional oil and gas within Belgium, The Netherlands and Luxemburg.

Benelux JV ownership will initially comprise 50% European Gas and 50% Transcor. European Gas will be the operator.

The Benelux JV combines the operational expertise of European Gas with the European and international business experience of Transcor and CNP.

Transcor was founded in 1947 as a metal trading company in Belgium and has evolved through acquisitions and organic growth into a large international supplier of energy commodities. Principal



businesses include the refining, storage, distribution and trading of crude oil, oil products, natural gas, coal and coke.

CNP is a Belgian holding company listed on Euronext and is included in the BEL20-index (top 20 Belgian index).

In late 2007, Transcor subscribed to €36,375,000 for convertible notes in European Gas with the subscription funds being applied towards purchase of Gazonor S.A. and working capital purposes.

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.

FINANCIALS APPENDIX 5B

At 30 June 2008, the Company had available funds of approximately €8,815,939

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

ABOUT EUROPEAN GAS LIMITED

European Gas Limited 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:

Anthony McClure (Managing Director)

Alan Flavelle (Executive Director)

Corporate

Technical

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

COMPLIANCE STATEMENT

The technical information quoted in this announcement has been compiled by Mr. Alan Flavelle and Mr Rodney 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 Technical Advisor to EGL and is a member of the Society of Petroleum Engineers.

The estimates undertaken by DMT comply with the SPE published Reserve Estimation Standards (revision 2007) and the Petroleum Resource Management System (SPE/AAPG/ WPC/SPEE).

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.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

EUROPEAN GAS LIMITED

ABN

75 075 760 655

Quarter ended ("current quarter")

30 June 2008

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter 3 months €000	Year to date 12 months €000
1.1	Receipts from product sales and related debtors	1,373	3,918
1.2	Payments for (a) exploration and evaluation	(1,158)	(4,910)
	(b) development	-	-
	(c) production	(1,319)	(1,943)
	(d) administration	(515)	(2,370)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	309	407
1.5	Interest and other costs of finance paid	(281)	(619)
1.6	Income taxes paid	-	-
1.7	Cashcalls – exploration & evaluation	-	-
	Net Operating Cash Flows	(1,591)	(5,517)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	(26,605)
	(c) other fixed assets	(50)	(93)
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	-	1,146
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Cash assets acquired	-	-
1.12	Other	-	-
	Net investing cash flows	(50)	(25,553)
1.13	Total operating and investing cash flows (carried forward)	(1,641)	(31,070)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)		
		(1,641)	(31,070)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	60
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Convertible notes (refer Note 6)	-	36,375
1.20	Other – Heritage shareholders unclaimed cash – held in trust	-	(163)
	Net financing cash flows	-	36,272
	Net increase (decrease) in cash held	(1,641)	5,202
1.21	Cash at beginning of quarter/year to date	10,448	3,657
1.22	Exchange rate adjustments to item 1.21	9	(43)
1.23	Cash at end of quarter	8,816	8,816

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter €000
1.24	Aggregate amount of payments to the parties included in item 1.2	85
1.25	Aggregate amount of loans to the parties included in item 1.10	-

1.26 Explanation necessary for an understanding of the transactions

Director's remuneration

Non-cash financing and investing activities

2.1

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2.2

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+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available €000	Amount used €000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	€000
4.1 Exploration and evaluation	3,000
4.2 Development	-
Total	3,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter €000	Previous quarter €000
5.1 Cash on hand and at bank	2,624	3,448
5.2 Deposits at call	6,192	7,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22) <i>(see note 6)</i>	8,816	10,448

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number on issue	Total Number quoted	Issue price per security (see note 3) (AU\$)	Amount paid up per security (see note 3) (AU\$)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	199,155,662	199,155,662	-	-
7.4 Changes during quarter (a) Increases through issues Ordinary shares				
7.5 +Convertible debt securities Tranche A Tranche B <i>(refer to note 6)</i>	14,500 notes 9,750 notes			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Unquoted options	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
Series A options	4,000,000	Nil	\$1.00	28/11/2008
Series B options	4,000,000	Nil	\$1.50	28/11/2010
Heritage options	1,563,269	Nil	\$1.00	28/02/2009
Employee /	3,500,000	Nil	\$1.50	15/04/2010
Contractor options	3,500,000	Nil	\$2.50	15/04/2012
7.8 Issued during quarter	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
Employee /	3,500,000	Nil	\$1.50	15/04/2010
Contractor options	3,500,000	Nil	\$2.50	15/04/2012
7.9 Exercised during quarter	<u>Number</u>	<u>Quoted</u>	<u>Exercise price</u>	<u>Expiry date</u>
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Anthony McClure – Managing Director
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Date 31 July 2008

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB6 Exploration for and Evaluation of Mineral Resources* and *AASB107: Cash Flow Statements* apply to this report..
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 **Convertible Notes** – The Convertible Notes have a face value of €1,500, carry a coupon rate of 5% and mature on 31 December 2010 (if not converted beforehand). Upon conversion, Tranche A and Tranch B would convert to 48,500,000 fully paid ordinary shares in the Company subject to the customary adjustments provisions.

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