



September 2008 QUARTERLY REPORT

EUROPEAN GAS LIMITED

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Website: www.europeangas.com.au

Shares on Issue: 199,155,662

Conv. Notes¹: 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 Willsteed (Non Exec. Director)

Nicholas C Farr-Jones (Non Exec. Director)

Company Secretary

Mark E Pitts

¹ 24,250 notes converting to 48,500,000 fully paid ordinary shares subject to customary adjustment to provisions.

HIGHLIGHTS

Resources, France

- Added Contingent Resources of 8990 petajoules ("PJ") (8481 billion cubic feet ("Bcf") or 240 billion cubic metres ("Bm³")).

Gazonor, France

- Initial coal mine methane ("CMM") 2P Reserves of 140 PJ (131 Bcf or 10.1 Bm³).
- Initial coal bed methane ("CBM") Contingent Resources of 5090 PJ (4800 Bcf or 136 Bm³).
- Gas sales of 34,488 MWh (124,160 GJ) for the quarter.
- Average sales price of €25.72 per MWh (€7.15 per GJ).
- New permit application submitted.

Lorraine, France

- CBM Contingent Resources upgraded and expanded to 3900 PJ (3681 Bcf or 104 Bm³).
- Completion of the Folschviller 2 appraisal (production test) well at the Lorraine Project in eastern France.
- Two laterals and two sidetracks have been completed for a total of 433 metres of coal and a further 367 metres of gassy sediments.
- Well currently under test.
- New permit application submitted.

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Figure 1. European Gas Project Areas

RESERVES AND RESOURCES

The Company's reserve and resource position is summarised in the following table.

Certified Reserves as at July 2008

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

Contingent Resources as at October 2008

		Billions of Cubic Metres *	Billions of Cubic Feet *	Petajoules
		Bm ³	Bcf	PJ
Gazonor	C1 + C2 + C3	136	4800	5090
Lorraine	C1 + C2 + C3	104	3681	3900
TOTAL		240	8481	8990

* contained methane

GAZONOR, NORTHERN FRANCE

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 579 square kilometres (km²). A further production permit covering 188 km² is under application, while an additional 1,352 km² is under application for exploration permits (see Figure 2).

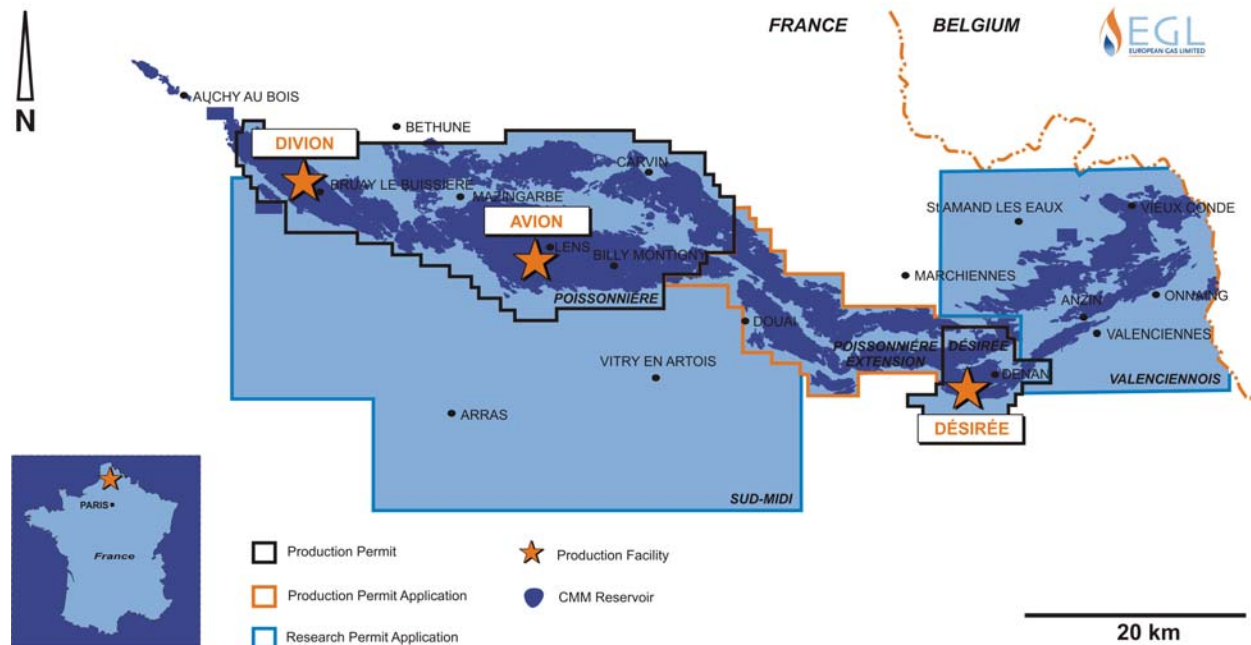


Figure 2. Gazonor Project location map

Reserves

During the quarter, the Company announced an upgrade to the reserve position for Gazonor. 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 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 were inaugural.

Certified Reserves as at July 2008

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

* contained methane

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

Subsequent to the end of the quarter, the Company announced the completion of initial estimates of CBM contingent resources within its Exploration and Production interests at Gazonor.

Due to the extensive nature of the coal seams, evidence of flow capability and the opportunity to substantially increase production at Gazonor, the Company has extended reporting of its current CMM reserve base to now include the CBM contingent resources.

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

The assessment excludes the reserves and potential resources within areas influenced by mining, the Poissonnière Extension and the Valenciennois and Sud Midi applications covering 1,541 km². The Company expects the contingent resources estimates are likely to significantly increase upon the granting of those permits.

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.

MBA Petroleum Consultants of Brisbane, Australia have been commissioned to deliver an Independent Certification Report under SPE and PRMS guidelines of the classification of these reserves and contingent resources for European Gas.

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

Due to the nature of CBM accumulations at Gazonor there is a higher probability of converting contingent resource to reserves, and of converting 3P reserves to 2P reserves, than in conventional gas accumulations. The Company is confident that over time it will be possible to continue to mature its reserve position in this manner. The present production of coal mine methane and the understanding of the Company’s 1P, 2P and 3P reserves position, combined with significant CBM contingent resources, provides the opportunity for appraisal and development of the Company’s 100% equity assets at Gazonor.

Development

The Company is assessing several options for the continued development of the Gazonor assets. Development options are subject to the outcome of a detailed feasibility study to be completed in the 2009 financial year. These options may include the refurbishment of the gas processing facilities at the Avion site, redevelopment of the Divion and Désirée sites, electricity generation and the development of further production sites.

In addition, further CBM reservoir studies will focus on the substantial potential of this resource.

Gas Sales

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

Sales		Average Price Received	
MWh	GJ	€/MWh	€/GJ
34,488	124,160	25.72	7.15

Gas sales for the quarter were reduced compared to the June quarter 2008 (gas sales 59,190 MWh (213,080 GJ)) due to the typical seasonal variations of the summer months where less gas can be injected into the national grid.

LORRAINE, EASTERN FRANCE

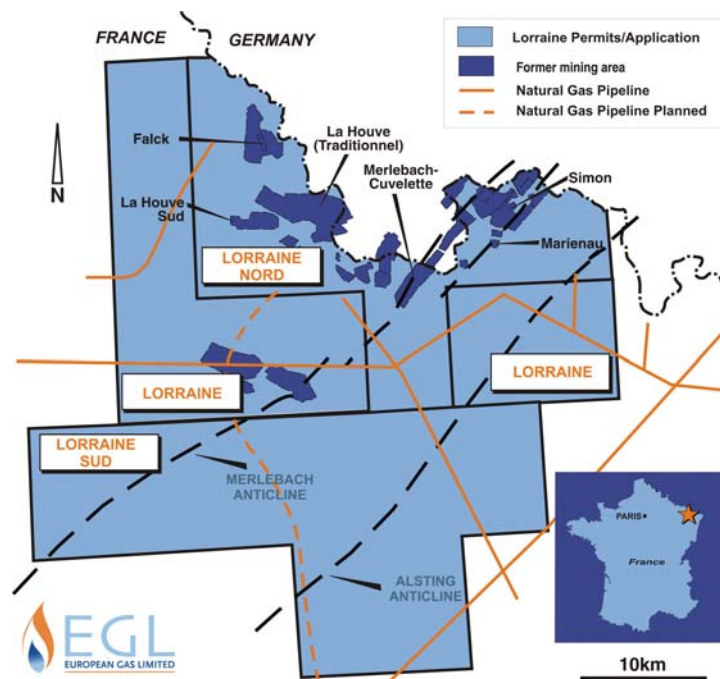


Figure 3. Lorraine Project location map

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 square kilometres.

Principal activities during the quarter focused on the 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 3.).

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'-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 completed. Testing on the lower lateral has been deferred pending the delivery of a workover rig.

The current placement of the pump allows for water sampling and pressure testing. Historical records have shown that generally the coals have low water content. The second part of the well test will allow for the opening of the lower lateral and the production testing of both laterals and the two sidetracks. This program is designed to allow observation of the pressures at which gas desorption commences and further evaluation of reservoir characteristics. In the lower lateral a fractured zone was identified while drilling, potentially indicating a significant zone of higher permeability. This fracture zone, together with the coals exposed in the lower lateral, will also be evaluated in the second part of the well test.

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

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.

Contingent Resources

Subsequent to the end of the quarter, the Company announced the completion of initial estimates of CBM contingent resources within its Lorraine and Lorraine Sud permits.

Recent work programs by European Gas have further delineated the extensive nature of the coal bearing sequences. Coupled with evidence of flow capability and adjacent CMM production, the work programs have facilitated a comprehensive expansion of the resource areas.

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 km².

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.

MBA Petroleum Consultants of Brisbane, Australia have been commissioned to deliver an Independent Certification Report under SPE and PRMS guidelines for the classification of these contingent resources for European Gas.

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 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 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 development of the Gas in Place (GIP) resource which to date totals 2,803 million cubic metres (99.1 Bcf).

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”).

Subsequent to the end of the quarter, the Benelux JV 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.

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

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 300 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 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.

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.

CORPORATE

Director Appointment

During the quarter, the Company announced the appointment of Mr Nicholas Farr-Jones as non-executive Director of the Company.

Mr Farr-Jones is a commercial lawyer by training holding a Bachelor of Law degree from the University of Sydney, Australia. In 1985, he joined Garland Seaborn and in 1995 he joined the French investment bank Société Générale in Paris with responsibilities in commodities and derivatives. In 1999, Nicholas was appointed a director Commodities & Mining Finance at Société Générale in Sydney. Nicholas is a director of Central Rand Gold Limited, a director of the Wesley Mission, Australia and a former Councillor of the City of Sydney. In 1992 he was awarded the Order of Australia for Services to Rugby. Nicholas has had considerable financial and legal experience in the global resources sector and in particular within Australia and France.

New Senior Appointments

During the quarter, the Company announced the following senior appointments.

Mr Eric Allen — Project Manager/Consultant, Lorraine, France

Mr Allen is a Professional Engineer with over 30 years of engineering and project management experience in the energy industry in the Americas, Europe and Asia. His experience includes design, management and coordination of exploration programs and development of a variety of projects with particular emphasis on coal bed methane. Mr Allen has also held senior engineering roles with leading consultants in exploration and evaluation of coal bed methane projects in Canada and internationally. Since 2005 he has acted as Vice President Operations for Richards Oil and Gas Limited, a Canadian company focused on coal bed methane exploration and development in western Canada.

Mr Rod Bresnehan — Senior Technical Adviser, France

Mr Bresnehan is a Petroleum Engineer with over 30 years of experience in the oil and gas industry with experience in both upstream development of oil and gas reserves and resources and downstream commercial and marketing areas with specific recent emphasis on coal bed methane. Mr Bresnehan has held various senior management positions in Santos Limited and Oil Company of Australia Limited (Origin Energy Limited) and has been a principal consultant to many coal bed methane projects and groups in Australia and internationally.

Mr Bresnehan is presently Chairman of the Australian Council of the Society of Petroleum engineers and is the principal of Bresnehan and Associates.

Mr Marc Vanbaleghem — Operation Engineer, Gazonor, France

Mr Vanbaleghem is an Industrial Engineer with over 20 years of experience in the gas industry. He has a background in network management, compression station and aquiferous storage in France, Germany and Austria. He has led several projects from startup, commissioning and operational phases for GRT Gaz, the principal gas network operator in France.

Miss Sarah Jordan — Investor Relations/Business Development Manager, France

Miss Jordan has a background principally in investment banking and funds management with Australian and international groups. She has held various positions at County NatWest Australia and then later Salmon Smith Barney Australia, Goldman Sachs Australia and Saltbush Funds Management.

Miss Corinne de Conti — Public Relations Manager, France

Miss de Conti has a background principally in press and communications within the French Government. She has held various positions in both the Ministry of Foreign Affairs and the Ministry of Agriculture. Miss de Conti holds an MA, Political Sciences from Temple University, USA.

FINANCIALS APPENDIX 5B

At 30 September 2008, the Company had available funds of approximately €3,425,000.

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:

Sarah Jordan

Investor Relations/Business Development Manager

info@europeangas.fr

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 European Gas and is Chairman of the Australian Council of the Society of Petroleum Engineers. 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 September 2008

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter 3 months €000	Year to date 3 months €000
1.1	Receipts from product sales and related debtors	1,115	1,115
1.2	Payments for (a) exploration and evaluation	(4,604)	(4,604)
	(b) development	-	-
	(c) production	(1,085)	(1,085)
	(d) administration	(849)	(849)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	43	43
1.5	Interest and other costs of finance paid	(5)	(5)
1.6	Income taxes paid	(80)	(80)
1.7	Cashcalls – exploration & evaluation	-	-
	Net Operating Cash Flows	(5,465)	(5,465)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(54)	(54)
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	128	128
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Cash assets acquired	-	-
1.12	Other	-	-
	Net investing cash flows	74	74
1.13	Total operating and investing cash flows (carried forward)	(5,391)	(5,391)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,391)	(5,391)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
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)	-	-
1.20	Other – Heritage shareholders unclaimed cash – held in trust	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(5,391)	(5,391)
1.21	Cash at beginning of quarter/year to date	8,816	8,816
1.22	Exchange rate adjustments to item 1.21	0	0
1.23	Cash at end of quarter	3,425	3,425

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	47
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	1,500
4.2 Development	-
Total	1,500

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	3,425	2,624
5.2 Deposits at call	-	6,192
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22) <i>(see note 6)</i>	3,425	8,816

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 Series A options Series B options Heritage options Employee / Contractor options	<u>Number</u> 4,000,000 4,000,000 1,563,269 3,500,000 3,500,000	<u>Quoted</u> Nil Nil Nil Nil Nil	<u>Exercise price</u> \$1.00 \$1.50 \$1.00 \$1.50 \$2.50	<u>Expiry date</u> 28/11/2008 28/11/2010 28/02/2009 15/04/2010 15/04/2012
7.8 Issued during quarter Employee / Contractor options	<u>Number</u> 3,500,000 3,500,000	<u>Quoted</u> Nil Nil	<u>Exercise price</u> \$1.50 \$2.50	<u>Expiry date</u> 15/04/2010 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 October 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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