

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

**HALF YEAR FINANCIAL REPORT**  
**31 DECEMBER 2007**

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

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**EUROPEAN GAS LIMITED  
ABN 75 075 760 655  
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**Directors' Report**

**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

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The directors present their report together with the consolidated financial report for the half-year ended 31 December 2007 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. Willsted (Non-Executive Director)

**REVIEW AND RESULT OF OPERATIONS**

**Financial**

The consolidated entity recorded an operating loss after income tax for the half year ended 31 December 2007 of \$1,454,416 (2006: Loss \$1,095,880).

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 producer/developer/explorer with projects in western Europe. The strategy of the company is to develop Coal Bed Methane (CBM) and Coal Mine Methane (CMM) projects, in particular, in France where the company holds a significant competitive advantage with major holdings under license.

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**Figure 1 European Gas Project Areas**

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**GAZONOR, NORTHERN FRANCE**

On 28 December 2007, the Company acquired 100% of the issued capital of Gazonor S.A., a company incorporated in France ("Gazonor"). Gazonor was a wholly owned subsidiary of Charbonnages de France, the French state owned coal mining corporation.

The purchase price for the Gazonor shares was €26.2 million (approximately A\$43.7 million based on an A\$/Euro foreign exchange rate of 1:0.60).

Gazonor is the owner of the Nord - Pas de Calais coal mine methane ("CMM") production field and associated infrastructure situated in northern France (See Figure 1.).

**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 (km<sup>2</sup>) with an extension of the Poissonnière permit of 187.5 km<sup>2</sup> under application. A further area of 432.6 km<sup>2</sup> 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 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 (Mm<sup>3</sup>) (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 Mm<sup>3</sup> per year (2.7 Bcf) with an average methane content of 54.4%.

**Reserves and Resources**

An independent report prepared by Deutsche Montan Technologie GmbH of Essen, Germany ("DMT") on behalf of European Gas estimated the 1P remaining recoverable reserves of 865 Mm<sup>3</sup> (30.6 Bcf or 32.6 Petajoules ("PJ")) of methane, producible over the next 20 years. After drilling additional boreholes, the recoverable 1P reserves may be substantially increased.

Also as determined by DMT, the desorbable CMM resource is calculated to total 10,500 Mm<sup>3</sup> (371 Bcf or 395 PJ). This applies to gas held in coals which are adjacent to the underground workings and have been de-stressed by mining activities.

Reserves and resources are summarised in the following tables:

**Gazonor Project**  
**1P Reserves (as at June 2007)**

	Millions of cubic Metres (CH <sub>4</sub> ) (Mm <sup>3</sup> )	Billions of cubic Feet (CH <sub>4</sub> ) (Bcf)	Petajoules (PJ)
<b>Avion</b>	683	24.1	25.7
<b>Divion</b>	140	4.9	5.2
<b>Désirée</b>	43	1.5	1.6
<b>TOTAL</b>	<b>865</b>	<b>30.6</b>	<b>32.6</b>

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**Gazonor Project**  
**Desorbable Coal Mine Methane Resources (as at June 2007)**

	Millions of cubic Metres (CH <sub>4</sub> ) (Mm <sup>3</sup> )	Billions of cubic Feet (CH <sub>4</sub> ) (Bcf)	Petajoules (PJ)
<b>Avion</b>	7,900	279	297
<b>Divion</b>	2,200	78	83
<b>Désirée</b>	400	14	15
<b>TOTAL</b>	<b>10,500</b>	<b>371</b>	<b>395</b>

There is also a significant tonnage of coal which has been unaffected by mining activity and has significant potential for coal bed methane ("CBM").

**Process Description**

Typically, CMM is extracted under very low pressure through degasification wells drilled into the old underground workings, gathered and transported to the central processing facilities at Avion, Divion, 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 Divion and Désirée sites the gas is compressed to between 300 and 350 kPag for supply of gas under sales agreements with local industries through buried gas pipelines. A total compression horsepower of about 4,000 kilowatts ("KW") has been installed at the processing sites which are all controlled locally.

**Asset Development**

European Gas 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 commenced in early 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, as CMM has been classified in France as a gas to be recovered with priority to minimise its contribution to the greenhouse effect ("énergie de recuperation"). Electricity generated from CMM will therefore enjoy a tariff in line with that generated from renewable energies attracting higher sales prices.

European Gas intends to optimise the recoverable CMM reserves by drilling additional boreholes and by undertaking further CMM reservoir studies.

In addition to the further development and exploitation of the CMM reserves, European Gas intends to explore the CBM potential of the permits. Only a small part of the coal basin has been exploited by mining and large quantities of coal remain, which contain potentially significant volumes of CBM. The exploration program will comprise of a detailed structural analysis, including reservoir modeling and drilling of at least two stratigraphic wells. If successful, this may be followed up by an expanded program prior to full development drilling and commercialisation of CBM.

**Production, Operational Costs and Pricing**

Current production levels for Gazonor is approximately 40 Mm<sup>3</sup> of contained methane per year (1.4 Bcf or 1.5 PJ). Subject to completion of feasibility works and subsequent expansion initiatives, methane production may be significantly increased over the next two years.

Assuming no operational enhancements or production increases, average unit operating costs for Gazonor for 2008 are expected to approximate €13.00 per Megawatt hour ("MWh") (€3.60 per Gigajoule ("GJ")). At the Avion site, which accounts for over 80% of gas production for Gazonor, operating costs are expected to approximate €10.00 per MWh (€2.80 per GJ). Towards the end of the half year, forward prices at Zeebrugge, Belgium (principal continental European pricing basis) for the 2008 calendar year averaged approximately €26.00 per MWh (€7.20 per GJ).

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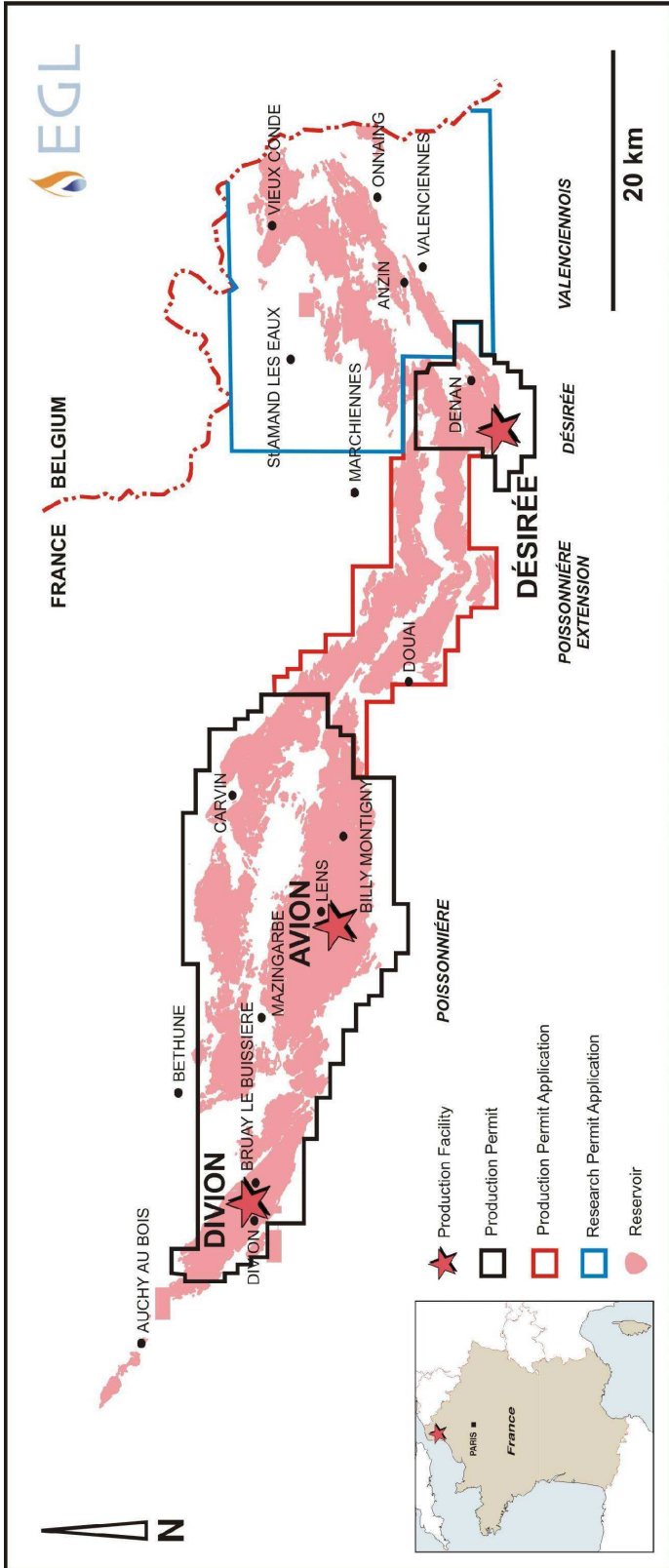


Figure 2. Gazonor S.A. Project Location

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**LORRAINE, EASTERN FRANCE**

European Gas holds a 100% interest in two permits, covering a major part of the Lorraine Basin.

Principal activities during the half year focused on the planning and commencement of drilling activities at Folschviller No. 2. Site preparatory work involved completion of the surface section down to 242 metres. The next phase involves the vertical drilling to 1460 metres TD followed by lateral completions in each of the three separate coal seams. This second phase will be commenced upon the delivery of the contracted larger rig once it is released from other operations. Commencement is scheduled for early in the second quarter 2008. The deliverability of methane from three of the four major seams will be tested by drilling lateral holes of approximately 250 metres into each seam. The wells have been designed to allow drilling of additional laterals in the seams for the purpose of testing a range of parameters relating to mud weight and drilling fluid.

During the half year, the Diebling St1 core hole was re-entered and a series of tests were carried out to determine gas deliverability of the coal seams encountered in that well. The tests showed that some of the seams had permeability values in excess of 1 millidarcy and ranging up to 42 millidarcies. The test also confirmed that the water bearing fractures encountered when drilling the initial core well would most likely cause control problems for any lateral drilling. A review of the seismic data shows that to the south west of the Diebling site there will be improved sealing which will isolate the water from the coal horizons. A new site for the Diebling appraisal well will be selected after analysis of the re-processed seismic data.

The confirmation of good permeability data and the previously reported thick coals and high gas content values shows that the Alsting anticline complex is an area of high potential. This feature trends south west from the Diebling site into the Lorraine Sud permit for a distance of 80 kilometres.

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 7% of the Company's Lorraine permit areas. This GIP resource is likely to be enhanced due to;

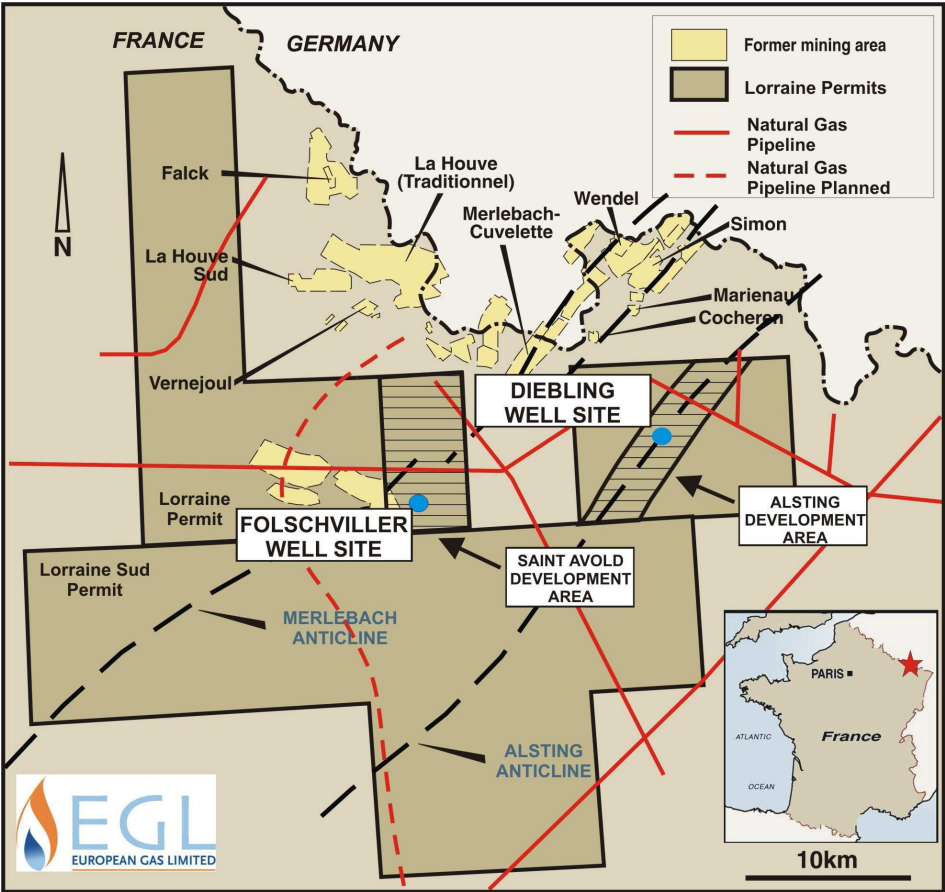
- in the Folschviller St1 and Diebling St1 wells, coal thicknesses were 25% to 80% higher than that used in the original GIP calculations;
- the overall gas content values were 15% to 25% higher than those used in making the original GIP calculations.; and
- high to very high mud gas readings were encountered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

In addition, the mud gas readings showed that the gas stream contains significant volumes of ethane. The proportion of ethane in the Folschviller St1 well ranged from less than 1% above 800 metres to over 15% below 1200 metres.

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**Figure 3. Lorraine Project Development Areas**

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**GARDANNE, SOUTHERN FRANCE**

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

The reservoir study has been completed and was based on analysis of 36 drill holes and 81.2 kilometres of seismic data. The data has been used to calculate the Gas in Place (GIP) volumes of CBM and gas in adjacent reservoirs in overlying fractured carbonate sediments.

**Gardanne Project Gas in Place (as at October 2007)**

	<b>Millions of cubic Metres (Mm<sup>3</sup>)</b>	<b>Billions of cubic Feet (Bcf)</b>	<b>Petajoules (PJ)</b>
<b>Grande Mine coal seam</b>	840.2	29.7	29.3
<b>Other coal seams</b>	1270.2	44.9	44.4
<b>Other sediments</b>	693.1	24.5	24.2
<b>TOTAL</b>	<b>2803.5</b>	<b>99.1</b>	<b>97.9</b>

The total GIP calculations are in a zone of approximately 40 square kilometres immediately west of the old mine workings.

Reservoir thicknesses and gas content data is as follows:

	<b>Thickness (metres)</b>	<b>Average Desorbable Gas Content (m<sup>3</sup>/t*)</b>	<b>Average Desorbable Gas Content (scf/t**)</b>
<b>Grande Mine coal seam</b>	1.8 to 3.4	4.0 to 6.5	141 to 230
<b>Other coal seams</b>	0.8 to 2.6	2.1 to 5.0	79 to 177
<b>Other sediments</b>	7.1 to 80.0	n/a***	n/a***

\* cubic metres per tonne

\*\* standard cubic feet per tonne

\*\*\* gas content in the sediments is based on 2% fracture porosity

The calculations and analysis were carried out by the company's consultants, DMT. The 3D modelling was made using PETREL 2007<sup>tm</sup> software.

There have not been any measurements of permeability for either the coals or the sediments. However the company is encouraged by several factors which suggest that good permeability will be encountered:

- Charbonnages de France routinely degassed the coal sequence ahead of mining by drilling vertical holes from the surface. Mine records show that these holes flowed gas to the surface sometimes in excess of 14,000 cubic metres per day (500,000 cubic feet per day). Mine documentation is not complete enough to allow quantitative petroleum engineering analyses to be performed on the well data, however it is apparent that commercial production from vertical unstimulated wells is possible.
- The coals and other sediments of Late Cretaceous age have not undergone burial deeper than that which is current and consequently porosity and permeability should not have been destroyed.
- Petrological descriptions of cores and cuttings from the core holes show that in some areas fracturing associated with faulting is common and is possibly indicative good fracture related production parameters.

Two sites have been selected for appraisal drilling in Gardanne in 2008. One well is planned for mid 2008 and depending on results of the first and rig availability, a second well in late 2008.

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**SAINT ETIENNE, CENTRAL FRANCE**

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

A methane land survey was completed during the half year. No evidence of surface methane leakages was detected. This result indicates that the abandoned mines are flooded and methane leakage to the surface has been suppressed. A further study of old mine records was instituted and is still in progress. However the records also show that at least one mine is not flooded and is sealed by a perched water table. The mine was recorded as being "gassy" and on the available evidence it is a good candidate for coal mine methane development. The company plans to drill a hole into these dry workings in 2008 to carry out a CMM production test.

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 estimated to be 600 metres below the surface. Timing for this test will depend on completion of permitting and the mobilisation of an appropriate rig.

**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 north 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 the second half of 2008.

**SOUTHERN TUSCANY, ITALY**

Three permit areas covering 1,553 km<sup>2</sup> 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 km<sup>2</sup> in the Canning Basin, Western Australia. During the half year, the operator ARC Energy commenced its Canning Basin drilling program and by the end of the period, two wells had been completed. It was announced that no commercial hydrocarbons had been encountered. At the end of the period, a third well, Yulleroo No. 2, was in progress.

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**FINANCING**

European Gas has entered into a Funding Agreement with Transcor Astra Group ("Transcor"), a subsidiary of Compagnie Nationale à Portefeuille S.A. ("CNP").

Pursuant to the terms of the Funding Agreement, Transcor subscribed €36,375,000 (approximately A\$60.6 million) for convertible notes ("the Notes") in the Company on 28 December 2007. The subscription funds have been applied towards settling the Gazonor purchase and will also be used for working capital purposes.

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.

In 2006, Transcor's turnover was approximately €10 billion (A\$16.7 billion).

Transcor operates world wide, covering North America, Europe, Africa, Latin America and Asia through 10 locations employing approximately 500 people.

CNP is a Belgian holding company with a market capitalization of approximately €5.5 billion (A\$9.2 billion) and is listed on Euronext. CNP is included in the BEL20-index (top 20 Belgian index). The company is controlled by Baron Albert Frère and his family.

CNP, together with its jointly-controlled subsidiaries PARGESA and GBL ("the Group"), is the largest shareholder of substantial French companies Total S.A. (5%) and Suez S.A. (9.4%). Total is the world's fourth largest integrated listed oil and gas group with a market capitalization of €132 billion (A\$220 billion) while Suez is an integrated industrial and services group involved in electricity, gas, energy services, water and waste management. Suez is currently in the process of merging with Gaz de France creating a company with a market capitalisation of over €90 billion (A\$150 billion). Outside of the French Government, the Group should be the largest shareholder of the merged entity.

The Group is also the largest shareholders in Imerys (53%) and Lafarge (17%) and holds significant interests in Pernod Ricard (6%), Iberdrola (5%), Arkema (5%), M6 (television network) (5%), Affichage Holding (advertising) (25%), Banca Leonardo (20%), amongst other business interests.

For further information on the Group please refer to [www.npm-cnp.be](http://www.npm-cnp.be).

**Terms of the Financing Agreement**

European Gas has issued the Notes in two tranches, on the same terms and conditions except that the second tranche will not be convertible until the statutory period for objection by the Foreign Investment Review Board ("FIRB") expires and shareholders' approval, for the second tranche to become convertible, is obtained. Tranche A and Tranche B are for €21,750,000 and €14,625,000 respectively for a total of €36,375,000 (approximately A\$60.6 million).

The Notes have a three year term, with a base coupon rate of 5% per annum secured against Gazonor. The Tranche A coupon is to be paid in cash while Tranche B is capitalised and will carry the same conversion rights as the Notes. The conversion price is €0.75 (approximately A\$1.25). The conversion price is subject to customary adjustment provisions for any future issues below the conversion price, bonus issues and reorganisations.

At the conversion price of €0.75, both tranches of the Notes convert into 48.5 million fully paid ordinary shares (approximately 18.86% of the Company's current capital fully diluted).

As both tranches of Notes convert into a greater number than the 15% permitted under Listing Rule 7.1 of the Australian Securities Exchange, the Company was required to seek shareholder approval for the second tranche to become convertible once the Notes have been issued.

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Should FIRB object to Transcor holding 15% or more of the Company's capital, Transcor would be able to require the Company to redeem any portion of the Notes which would convert into 15% or more within 12 months.

European Gas convened a meeting of shareholders which was held subsequent to the end of the half year on 15 February 2008. The shareholders approved the convertibility of the second tranche of the Notes.

**COMPLIANCE STATEMENT**

The technical information quoted in this announcement has been compiled by Mr. Alan Flavelle and geoscientists under his supervision. With regards to Gazonor S.A., the Reserve and Resource information quoted in this announcement has been compiled by Deutsche Montan Technologie GmbH of Essen, Germany under the supervision of Mr Alan Flavelle. Mr Flavelle is a Fellow of the Australasian Institute of Mining and Metallurgy and is a member of the Society of Petroleum Engineers. Mr Flavelle has consented to the inclusion in this report of the matters based on the information in the form and context in which it appears.

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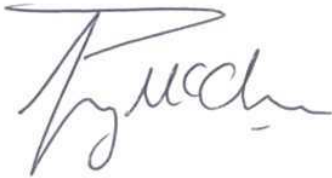
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**AUDITOR'S REVIEW REPORT AND INDEPENDENCE DECLARATION UNDER SECTION 307C OF  
THE CORPORATIONS ACT 2001**

The Auditor's Review Report and Independence Declaration is set out on page 32 and forms part of the directors' report for the half-year ended 31 December 2007

DATED at PERTH this twelfth day of March 2008

Signed in accordance with a resolution of the directors:



.....  
**Anthony J McClure**  
**MANAGING DIRECTOR**

**EUROPEAN GAS LIMITED**  
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**CONDENSED INCOME STATEMENT**

**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Notes	<b>CONSOLIDATED</b>	
		<b>For Half Year 31 Dec 2007</b>	<b>For Half Year 31 Dec 2006</b>
<b>Continuing operations</b>		<b>\$</b>	<b>\$</b>
<b>Income</b>			
Interest income		79,134	380,430
Other income		112,727	15,156
		<b>191,861</b>	<b>395,586</b>
<b>Expenses</b>			
Administrative expenses		(1,191,850)	(1,078,021)
Depreciation charges		(23,895)	(7,043)
Consultancy fees		(345,085)	(573,809)
Exploration expenses written-off		-	(155,518)
Loss on sale of available-for-sale investments		(85,447)	-
Share based payments – options		-	(1,944,000)
<b>Loss from continuing operations before income tax</b>		<b>(1,454,416)</b>	<b>(3,362,805)</b>
Income tax expense		-	-
<b>Loss from continuing operations after income tax</b>		<b>(1,454,416)</b>	<b>(3,362,805)</b>
Profit after tax from discontinued operations	4	-	2,266,925
<b>Net loss for the period</b>		<b>(1,454,416)</b>	<b>(1,095,880)</b>
Earnings / (loss) per share [cents per share]			
From continuing operations:			
Basic		(0.733)	(1.435)
Diluted		(0.733)	(1.435)
From profit / (loss) for the period			
Basic		(0.733)	(0.468)
Diluted		(0.733)	(0.468)

The accompanying notes form part of this financial report.

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**CONDENSED BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**

	Note	<b>CONSOLIDATED</b>	
		<b>As at 31 Dec 2007</b>	<b>As at 30 June 2007</b>
		<b>\$</b>	<b>\$</b>
<b>Current Assets</b>			
Cash and Cash Equivalents		18,476,338	5,071,019
Trade and Other Receivables		2,331,910	481,178
Prepayments		-	18,000
Inventories		464,450	-
		<b>21,272,698</b>	<b>5,570,197</b>
Assets classified as held for sale	4	54,447	54,447
<b>Total Current Assets</b>		<b>21,327,145</b>	<b>5,624,644</b>
<b>Non-Current Assets</b>			
Available for sale financial assets		644,911	2,618,370
Property, Plant & Equipment		4,320,790	326,047
Exploration, Evaluation & Development Costs	5	34,728,876	33,543,416
Intangible Assets	6	44,052,448	-
<b>Total Non-Current Assets</b>		<b>83,747,025</b>	<b>36,487,833</b>
<b>Total Assets</b>		<b>105,074,170</b>	<b>42,112,477</b>
<b>Current Liabilities</b>			
Trade Payables & Accruals		1,677,441	3,109,943
Provisions	6	3,771,418	-
Derivative financial liability	7	9,306,100	-
Interest bearing liabilities	7	1,698,665	-
<b>Total Current Liabilities</b>		<b>16,453,624</b>	<b>3,109,943</b>
<b>Non current liabilities</b>			
Interest bearing liabilities	7	45,249,077	-
Deferred tax liability		1,332,182	-
<b>Total non-current liabilities</b>		<b>46,581,259</b>	-
<b>Total Liabilities</b>		<b>63,034,883</b>	<b>3,109,943</b>
<b>Net Assets</b>		<b>42,039,287</b>	<b>39,002,534</b>
<b>Equity</b>			
Contributed Equity	8	52,310,073	47,825,666
Reserves	9	407,345	400,583
Accumulated Losses		(10,678,131)	(9,223,715)
<b>Total Equity</b>		<b>42,039,287</b>	<b>39,002,534</b>

The accompanying notes form part of this financial report.

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**CONDENSED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Note	<b>CONSOLIDATED</b>	
		<b>For Half Year 31</b>	<b>For Half Year 31</b>
		<b>DEC 2007</b>	<b>DEC 2006</b>
		<b>\$</b>	<b>\$</b>
<b>Cash Flows from Operation Activities</b>			
Receipts from Customers		13,184	46,776
Payments to Suppliers & Employees		(1,615,919)	(1,008,080)
Borrowing Costs		(13)	(5,793)
Interest Received		149,472	380,430
		<u>                    </u>	<u>                    </u>
<b>Net cash flows from /(used in) operating activities</b>		<u>(1,453,276)</u>	<u>(586,667)</u>
<b>Cash Flows from Investing Activities</b>			
Payments for Exploration and Development Expenditure		(3,645,201)	(3,687,646)
Payment for Plant & Equipment		(30,250)	(79,758)
Sale of Plant & Equipment		-	2,300,000
Purchase of equity investment		(44,091,168)	-
Proceeds from sale of equity investments		1,915,682	-
Other		-	-
		<u>                    </u>	<u>                    </u>
<b>Net cash flows from /(used in) investing activities</b>		<u>(45,850,937)</u>	<u>(1,467,404)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from Issue of Shares		100,000	608,250
Proceeds from Issue of Convertible Notes		60,827,759	-
Costs associated with issuing Convertible Notes		(248,424)	-
Proceeds from Heritage Petroleum plc		-	1,306,915
Other		-	-
		<u>                    </u>	<u>                    </u>
<b>Net cash flows from /(used in) financing activities</b>		<u>60,679,335</u>	<u>1,915,165</u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		13,375,122	(138,906)
<b>CASH AT 1 JULY</b>		5,071,019	13,507,090
<b>NET FOREIGN EXCHANGE DIFFERENCE</b>		30,197	-
		<u>                    </u>	<u>                    </u>
<b>CASH AT 31 DECEMBER</b>		<u><u>18,476,338</u></u>	<u><u>13,368,184</u></u>

The accompanying notes form part of this financial report.

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**CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

<b>CONSOLIDATED</b>	<b>Attributable to equity holders of the parent</b>			
	<b>Contributed equity \$</b>	<b>Accumulated losses \$</b>	<b>Other reserves \$</b>	<b>Total \$</b>
<b>Balance at 1 July 2007</b>	47,825,666	(9,223,715)	400,583	39,002,534
Loss for the period	-	(1,454,416)	-	(1,454,416)
Exercise of options	120,907	-	(20,907)	100,000
Equity component of convertible notes	4,363,500	-	-	4,363,500
Movement in fair value of available-for-sale assets	-	-	27,669	27,669
<b>Balance at 31 December 2007</b>	<b>52,310,073</b>	<b>(10,678,131)</b>	<b>407,345</b>	<b>42,039,287</b>
<b>Balance at 1 July 2006</b>	25,160,908	(9,023,559)	1,776,132	17,913,481
Loss for the period	-	(1,095,880)	-	(1,095,880)
Exercise of options	608,250	-	(5,225)	603,025
Cost of option valuation	-	-	1,944,000	1,944,000
Movement in fair value of available-for-sale assets	-	-	(360,098)	(360,098)
Transferred to accumulated losses upon disposal of the assets	-	1,750,000	(1,750,000)	-
<b>Balance at 31 December 2006</b>	<b>25,769,158</b>	<b>(8,369,439)</b>	<b>1,604,809</b>	<b>19,004,528</b>

The accompanying notes form part of this financial report.

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

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**1. Corporate Information**

The financial report of European Gas Limited and controlled entities (the “Group”) for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 12 March 2007. European Gas Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

**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 2007.

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 2007 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.

**(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 2007, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2007, as described in Note 2(d).

**Financial Instruments Issued by the Company**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Transaction costs arising on the issue of equity instruments, net of associated tax, are recognised directly in equity as a reduction of the proceeds of the equity instrument to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

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

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***Convertible notes***

The convertible notes are a compound financial instrument with separate liability and equity components identified on initial recognition. Transaction costs are deducted against the liability component of the compound financial instrument at amortised cost using the effective interest rate method.

The debt component of the convertible notes is further split into two components: a debt component and a component representing the embedded derivative in the convertible notes. The embedded derivative represents the value of the option that note holders have to convert into ordinary shares in the Company.

The debt component of the convertible note is measured at amortised cost and therefore increases as the present value of the interest coupon payments and redemption amount increases, with a corresponding charge to finance cost (*accretion expense*). The debt component decreases by the cash interest coupon payments made. The embedded derivative is measured at fair value at each balance sheet date, and the change in the fair value is recognised in the income statement.

***Interest and dividends***

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instrument or component parts of compound instruments.

**Goodwill**

Goodwill on acquisition is initially measured at cost being the excess of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in the circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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**Exploration and Development Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

**(c) Basis of consolidation**

The half-year consolidated financial statements comprise the financial statements of European Gas Limited and its controlled subsidiaries ('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.

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007 but have not been applied in preparing the financial report.

New or revised requirement	Effective for annual reporting periods beginning/ending on or after	More information	Impact on Group
<p>AASB 123 Borrowing Costs (Revised), AASB 2007-6 Amendments to Australian Accounting Standards</p> <p>Eliminates the option of expensing borrowing costs relating to qualifying assets, instead requiring capitalisation. Transitional provisions require prospective application to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after application date. An entity may however, designate any date before the application date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. The Amending Standard eliminates reference to the expensing option in various other pronouncements.</p>	Beginning 1 January 2009	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	Unless the Group becomes involved in a qualifying asset in future periods; amendments are not expected to have any impact on the financial report.
<p>AASB 8 Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8</p> <p>AASB 8 replaces AASB 114 Segment Reporting and introduces new 'management approach' to segment reporting to align IFRS and US GAAP. Unlike AASB 114, AASB 8 only applies to entities which have on issue debt or equity securities that are traded in a public market (or which are in the process of issuing any class of instruments in a public market). Therefore, reporting entities that are out of scope of AASB 8 may wish to early adopt this Standard to avoid segment reporting in their financial reports.</p>	Beginning 1 January 2009	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	AASB 8 is a disclosure standard, so will have no direct impact on amounts in the financial report. However amendments will result in changes in disclosures.
<p>AASB 1049 Financial Reporting of General Government Sectors by Governments</p> <p>This Standard applies to the Australian Government and each State and Territory Government and is therefore of limited relevance to other entities.</p>	Beginning 1 January 2008	<p>Optional for half-year ending 30 June 2007</p> <p>Optional for early adoption for year ending 30 June 2007</p>	The Group is not a general government sector by Governments; amendments are not expected to have any impact on the financial report.

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**3. SEGMENT INFORMATION**

The consolidated entity's business segment operated geographically as follows:

**2007:**

- Europe: Production, development and exploration for commercial coal bed and coal mine methane deposits in France and Italy.

**2006:**

- Europe: Exploration for commercial coal bed and coal mine methane deposits in France and Italy.
- Discontinued operations: Oil and gas exploration and production activities in Western Australia

	<i>EUROPE</i>		<i>DISCONTINUED OPERATIONS</i>		<i>UNALLOCATED</i>		<i>TOTAL OPERATIONS</i>	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	-	-	-	2,266,925	191,861	395,586	191,861	2,662,511
Results	(613,203)	(865,172)	-	2,266,925	(841,213)	(2,497,633)	(1,454,416)	(1,095,880)

**4. DISCONTINUED OPERATIONS**

On 1 July 2006 the consolidated entity sold its equity in Terratek Drilling Tools Pty Ltd to Golden Dynasty Resources Ltd for a consideration of shares and petroleum royalties.

On 18 September 2006 the consolidated entity concluded the sale of the Broome tank and pipeline for cash consideration of \$2,300,000.

On 15<sup>th</sup> September 2006 the consolidated entity sold its remaining interests in the Canning Basin to ARC Energy for a consideration of shares and petroleum royalties.

Profits attributable to discontinued operations for the six months ended 31 December 2007 and 31 December 2006 were as follows:

	<b>CONSOLIDATED</b>	
	<b>Half Year 31 Dec 2007</b>	<b>Half Year 31 Dec 2006</b>
	\$	\$
<b>Revenue</b>		
Gain on disposal of subsidiary	-	430,747
Profit on sale of fixed assets	-	1,836,178
	-	2,266,925
<b>Expenses</b>	-	-
<b>Profit before tax</b>	-	2,266,925
Income tax	-	-
<b>Profit after tax</b>	-	<b>2,266,925</b>

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Assets and liabilities relating to discontinued operations as at 31 December 2007 and 31 December 2006 were as follows:

	<b>CONSOLIDATED</b>	
	<b>31 Dec 2007</b>	<b>30 June 2007</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Exploration, Evaluation & Development Costs	54,447	54,447
	<b>54,447</b>	<b>54,447</b>
<b>Liabilities</b>		
Net assets - discontinued operations	-	-
	<b>54,447</b>	<b>54,447</b>

**5. EXPLORATION, EVALUATION & DEVELOPMENT COSTS:**

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

Pre-production: Exploration and evaluation phase

	<b>CONSOLIDATED</b>	
	<b>31 Dec 2007</b>	<b>30 June 2007</b>
	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	33,543,416	4,326,581
Expenditure incurred	1,185,460	11,095,109
Disposal	-	(2,819,958)
Write off of abandoned areas	-	(166,647)
Acquisition as part of business combination	-	21,162,778
Classified as held-for-sale [note 4]	-	(54,447)
	<b>34,728,876</b>	<b>33,543,416</b>

Ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on successful development and commercial exploitation or sale of the respective exploration areas.

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**6. INTANGIBLE ASSETS**

	<b>CONSOLIDATED</b>	
	<b>31 Dec 2007</b>	<b>30 June 2007</b>
	<b>\$</b>	<b>\$</b>
Goodwill	40,171,930	-
Customer contracts	3,880,518	-
	<b>44,052,448</b>	<b>-</b>
	<b>44,052,448</b>	<b>-</b>

**Acquisition of Gazonor S.A**

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 \$45,137,479. 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:

	<b>Recognised at acquisition</b>	<b>Carrying amount at acquisition</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	559,226	559,226
Trade receivables	1,968,664	1,968,664
Inventories	464,450	464,450
Property Plant & Equipment	3,990,743	3,990,743
Customer contracts [refer note (i)]	3,880,518	-
	<b>10,863,601</b>	<b>6,983,083</b>
Trade payables	794,452	794,452
Provision for rehabilitation [refer note (ii)]	3,771,418	3,771,418
Deferred tax liability	1,332,182	-
	<b>5,898,052</b>	<b>4,565,870</b>
Fair value of identifiable net assets	<b>4,965,549</b>	
Goodwill arising on acquisition [refer note (iii)]	40,171,930	
	<b>45,137,479</b>	
Cost of the combination:		
Cash consideration paid to the vendor	43,812,709	
Costs associated with the acquisition	1,324,770	
Total cost of the combination	<b>45,137,479</b>	

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The cash outflow on acquisition is as follows:

Net cash acquired with the subsidiary	559,226
Cash paid	(43,812,709)
Costs associated with the acquisition	(1,324,770)
Net cash outflow	<u>(44,578,253)</u>

- (i) As at the date of acquisition, Gazonor had long term contracts with certain customers to deliver gas over various periods up to March 2010. These contracts have been valued by discounting the future expected net cash inflows over the period of contract at 10% p.a.
- (ii) Provisions amount to commitments made by Gazonor for future costs associated with the end of producing asset's economic life. These costs have been estimated by third party experts who are proficient in supplying the services that will be necessary.
- (iii) The recoverable amount of Gazonor's operations has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 20 year period, and a discount rate of the mid-point between 10%-12.5%. Management believes that any reasonable possible change in the key assumptions on which Gazonor's recoverable amount is based would not cause Gazonor's carrying amount to exceed its recoverable amount.

**7. INTEREST BEARING LIABILITIES**

	<b>CONSOLIDATED</b>	
	<b>31 Dec 2007</b>	<b>30 June 2007</b>
	\$	\$
<i>Current</i>		
Convertible Note		
– Debt component	1,710,346	-
– Transaction costs at amortised cost	(11,681)	-
	<u>1,698,665</u>	-
– Fair value of embedded derivative	<u>9,306,100</u>	-
<i>Non-Current</i>		
Convertible Note		
– Debt component	45,429,920	-
– Transaction costs at amortised cost	(180,843)	-
	<u>45,249,077</u>	-

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During December 2007, European Gas Limited (“the company” or “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 (\$36.37 million); and
- Tranche B: 9,750 notes @ €1,500 each totalling €14.625 million (\$24.46 million)

The terms of the notes are:

- Maturity: 36 months from the date of issue;
- Applicable currency: Euro (€)
- Coupon rate: 5% p.a. of nominal value [6% p.a. for Tranche B if a convertibility event does not occur within 60 days of the issue date and until such convertibility event occurs].
- Interest payment: Paid quarterly for Tranche A; and at redemption or conversion for Tranche B. The interest is 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 41<sup>st</sup> day of the issue and 7<sup>th</sup> day before maturity for Tranche A; and *for Tranche B:* anytime after convertibility event and 7<sup>th</sup> day before maturity.
- Convertibility event: For Tranche B the convertible event occurs EITHER (a) on expiry of the statutory period for objection after notice is given to Foreign Investment Review Board (“FIRB”) and the company obtaining shareholder approval for the conversion of Tranche B on the same terms as Note A or European Gas is permitted to issue sufficient additional equity under ASX listing rules; OR (b) any other event occurs to enable the company to issue shares that would not result in note-holder holding more than 15% of the company’s share capital.
- Conversion price: €0.75 per convertible note
- Conversion ratio: Nominal value divided by conversion price.
- Redemption at maturity: All outstanding notes at maturity shall be redeemed in cash.
- Early redemption: European Gas has to redeem the portion of Tranche B Notes in cash that would result in note-holder holding more than 15% of the company’s share capital if the convertibility event has not occurred within 366 days of the issue date or the date the FIRB’s objection is communicated to European Gas.
- 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 upto maturity/conversion.

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 \$4,381,394 represents the residual amount after deducting from the fair value of the Notes as a whole the amount of \$60,827,759, separately determined to be the fair value of the liability component.

Transaction costs measured at amortised cost using the effective interest rate method have been off-set against the liability component of the Notes. Transaction costs of \$248,424 were incurred in relation to the issue of the Notes and \$192,524 was deducted against the liability component and \$17,894 was deducted against the equity component of the Notes on initial recognition. Transaction costs of \$38,006 were expensed during the current period.

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The liability component of the Notes has been further split to recognise the fair value of the embedded derivative represented by the early conversion feature of the Notes at the option of the holder. The value of the call option has been determined by reference to Binomial option valuation model. The fair value on the issue date was determined to be \$9,306,100. This amount has been separately identified on the face of the balance sheet. Changes in the fair value of the embedded derivative are recorded in profit and loss in each reporting period.

**8. CONTRIBUTED EQUITY**

	<b>CONSOLIDATED</b>		<b>CONSOLIDATED</b>	
	<b>31 Dec 2007</b>	<b>30 June 2007</b>	<b>31 Dec 2007</b>	<b>30 June 2007</b>
	<b>Number</b>	<b>Number</b>	<b>\$</b>	<b>\$</b>
<b>a) Ordinary shares</b>				
At the beginning of the reporting period	198,155,662	161,511,364	47,825,666	25,160,908
Shares issued during the period				
Shares issued on exercise of options	1,000,000	5,135,000	120,907	608,250
Shares issued in consideration for 100% of issued capital of Heritage Petroleum Plc	-	31,509,298	-	22,056,508
<b>At reporting date</b>	<b>199,155,662</b>	<b>198,155,662</b>	<b>47,946,573</b>	<b>47,825,666</b>
<b>b) Equity component of convertible notes</b>				
At the beginning of the reporting period			-	-
Notes issued during the year			4,381,394	-
Transaction costs			(17,894)	-
<b>At reporting date</b>	<b>-</b>	<b>-</b>	<b>4,363,500</b>	<b>-</b>
<b>Total</b>			<b>52,310,073</b>	<b>47,825,666</b>

	<b>CONSOLIDATED</b>			
	<b>31 Dec 2007</b>		<b>30 June 2007</b>	
	<b>Number</b>	<b>Exercise Price</b>	<b>Number</b>	<b>Exercise Price</b>
		<b>\$</b>		<b>\$</b>
<b>Outstanding options</b>				
Unlisted options expiring on:				
25-August-2008	-		1,000,000	0.10
28-November-2008	4,000,000	1.00	4,000,000	1.00
28-November-2010	4,000,000	1.50	4,000,000	1.50
28-February-2009	1,546,769	1.00	1,546,769	1.00
	<b>9,546,769</b>		<b>10,546,769</b>	

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**9. RESERVES**

	<b>Option valuation reserve \$</b>	<b>Asset revaluation reserve \$</b>	<b>Foreign Currency Translation Reserve \$</b>	<b>Available for sale investments reserve \$</b>	<b>Total \$</b>
<b>Consolidated</b>					
<b>31-December-2007</b>					
Balance at the beginning of the period	1,964,907	-	(1,286,196)	(278,128)	400,583
Options exercised during the year	(20,907)		-	-	(20,907)
Transfer to profit or loss upon sale of investments	-	-	-	12,911	12,911
Movement in fair value of investments	-	-	-	14,758	14,758
<b>At reporting date</b>	<b>1,944,000</b>	<b>-</b>	<b>(1,286,196)</b>	<b>(250,459)</b>	<b>407,345</b>
<b>30-June-2007</b>					
Balance at the beginning of the year	26,132	1,750,000	-	-	1,776,132
Options granted during the year	1,944,000	-	-	-	1,944,000
Options exercised during the year	(5,225)	-	-	-	(5,225)
Transfer to retained earnings upon disposal	-	(1,750,000)	-	-	(1,750,000)
Movement in fair value of investments	-	-	-	(278,128)	(278,128)
Effect of translation of functional currency to presentation currency of subsidiary.	-	-	(1,286,196)	-	(1,286,196)
<b>At reporting date</b>	<b>1,964,907</b>	<b>-</b>	<b>(1,286,196)</b>	<b>(278,128)</b>	<b>400,583</b>

**10. EVENTS AFTER BALANCE SHEET DATE**

No matters or circumstances have 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.

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

**COMPANY DETAILS**

The registered office of the company is:

Suite 4, 4 Ventnor Avenue,  
West Perth WA 6005  
AUSTRALIA  
Tel: +61 8 9226 0320  
Fax: +61 8 9226 0309  
E-mail: [info@europeangas.com.au](mailto:info@europeangas.com.au)  
Website: [www.europeangas.com.au](http://www.europeangas.com.au)

The corporate office of the company is:

17 Square Edouard VII  
75009 Paris  
FRANCE

Tel: +33 1 53 43 94 41  
Fax: +33 1 53 43 94 94  
E-mail: [info@europeangas.fr](mailto:info@europeangas.fr)  
Website: [www.europeangas.fr](http://www.europeangas.fr)

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

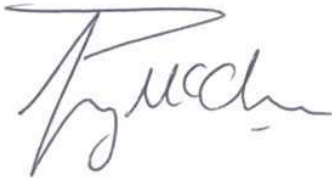
**Directors' Declaration**

In the opinion of the directors of European Gas Limited:

1. The financial statements and notes set out on pages 15 to 29 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 2007 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 twelfth day of March 2008

Signed in accordance with a resolution of the Directors.



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**Anthony J McClure**  
**Managing Director**

**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, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising European Gas Limited and the entities it controlled at 31 December 2007 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 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 Australian 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 2007 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.

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*Independence*

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

*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 2007 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 12<sup>th</sup> day of March 2008

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of European Gas Limited for the half year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) 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**  
Chartered Accountants



**Chris Nicoloff**  
Partner

Dated at Perth, Western Australia this 12<sup>th</sup> day of March 2008

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