



March 2008 QUARTERLY REPORT

EUROPEAN GAS LIMITED

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Shares on Issue: 199,155,662

Conv. Notes: 48,500,000

Options: 9,563,269

Fully Diluted: 257,218,931

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

- Assimilation of Gazonor S.A. into European Gas successfully completed.
- Gas sales of 111,238 MWh (0.40 PJ) for the quarter.
- Average sales price of €20.83 per MWh (€5.78 per GJ) for the quarter.
- Sales in line with budget.
- Operational improvements resulting in an 18% reduction in operating costs.

Lorraine, France

- Lateral drilling is scheduled for June quarter.
- Gas in Place re-assessment for Saint Avold block likely to significantly increase the resource.
- With encouraging permeability results and seismic re-processing from Diebling planning for drilling continues.

Lons le Saunier, France

- Two sites have been selected for appraisal drilling in the Lons le Saunier coal basin and drilling is provisionally planned for the second half of 2008.

Gardanne and St Etienne, France

- A site has been selected for an initial appraisal well at each site and the permitting processes are in progress.
- Drilling is provisionally planned for second half 2008.

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, odourised 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 and cost information for the quarter are summarised in the following table.

| Sales | | Average Price Received | | Average Cash Operating Cost | |
|---------|------|------------------------|------|-----------------------------|------|
| MWh | PJ | €/MWh | €/GJ | €/MWh | €/GJ |
| 111,238 | 0.40 | 20.83 | 5.78 | 8.71 | 2.42 |

Gas sales and average prices received for the quarter were in line with budget while operating costs were approximately 18% below budget reflecting initial operational improvements.

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 Mm³ (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 Mm³ (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 ₄) (Mm ³) | Billions of cubic Feet (CH ₄) (Bcf) | Petajoules (PJ) |
|--------------|---|--|--------------------|
| Avion | 683 | 24.1 | 25.7 |
| Divion | 140 | 4.9 | 5.2 |
| Désirée | 43 | 1.5 | 1.6 |
| TOTAL | 865 | 30.6 | 32.6 |

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

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

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

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 movement of resources into reserve categories. 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 late 2008 or early 2009.

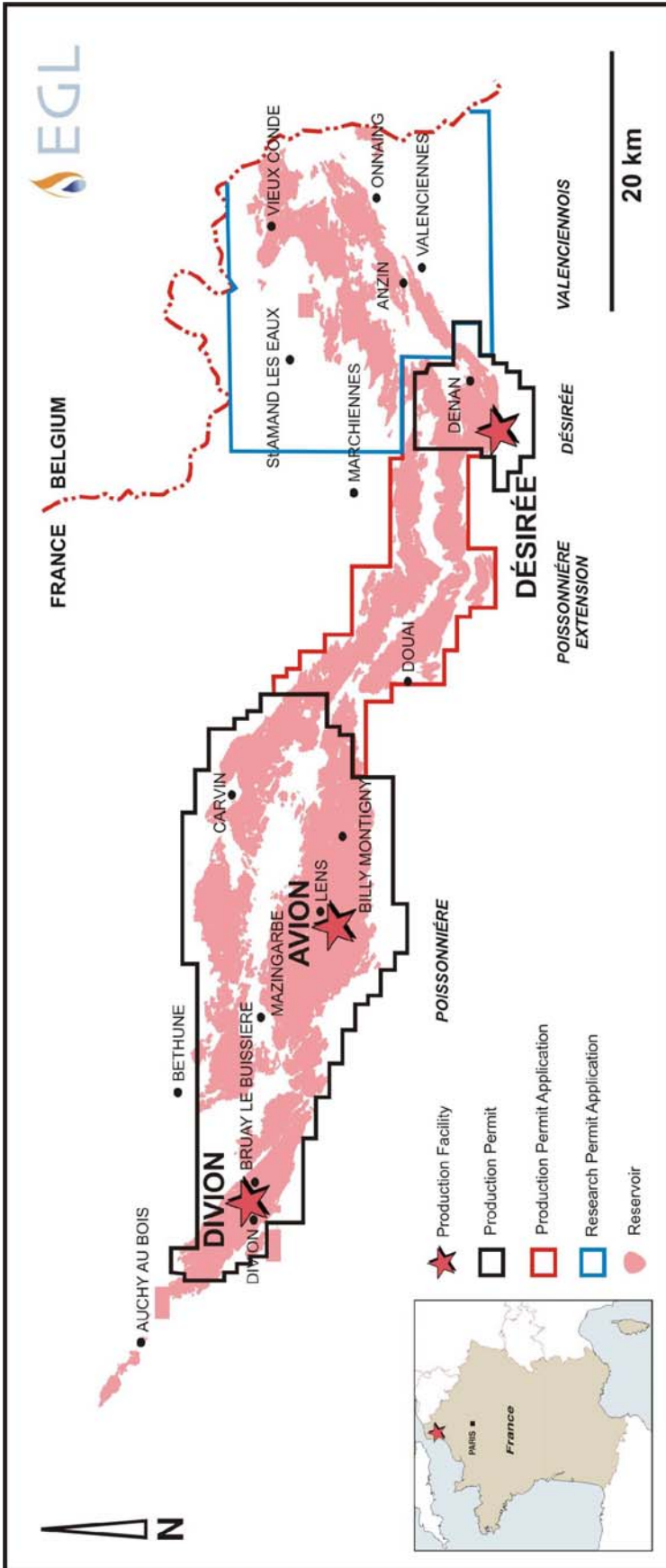


Figure 2. Gazonor S.A. Project Location

LORRAINE, EASTERN FRANCE

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

Principal activities during the last two quarters focused on the 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 total depth 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 the June 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 Company has commenced the re-assessment of the Lorraine gas in place calculations. This in house project is initially focussed in two areas;

- a. A nine square kilometre area in the north east part of the St Avold block which lies within the current resource area; and
- b. A similar sized area south west of the Faulquemont mine site to the west of the Saint Avold block. This area is outside the current resource area.

This work is likely to significantly increase the current Gas in Place estimates for the Saint Avold area and will allow the selection of further appraisal drilling sites.

During the previous quarter, 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 anticlinal complex is an area of high potential. This complex 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;

- 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
- The mud gas readings also 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.

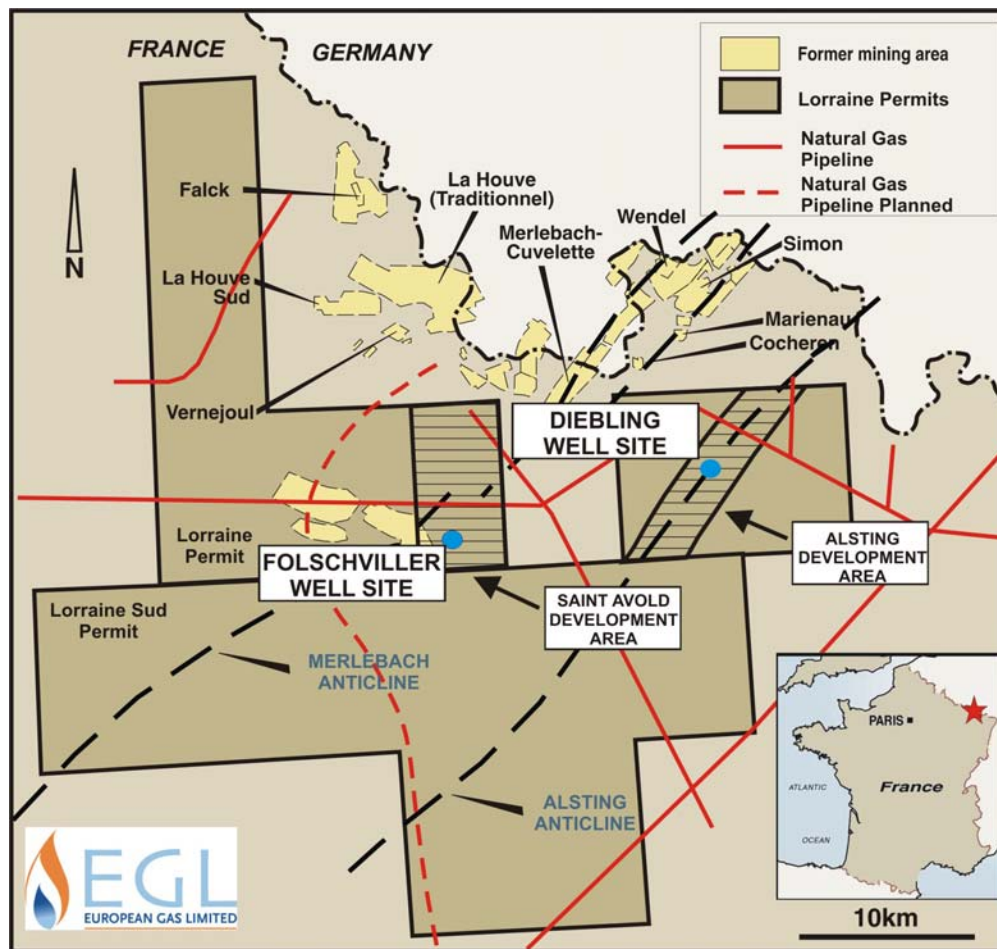


Figure 3. Lorraine Project Development Areas

GARDANNE, SOUTHERN FRANCE

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

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. 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 GIP resource which to date totals 2,803.5 million cubic metres (99.1 billion cubic feet).

LONS LE SAUNIER, CENTRAL FRANCE

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 and 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 the second half of 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.

GEOSCIENCE

The Company has commenced a large seismic reprocessing project which involves seismic data from the Lorraine and Lons le Saunier project areas. The object of this work is to enable better site selection for appraisal wells and to assist geo-steering when drilling lateral wells.

An investigation into the role of geophysics and remote sensing in detecting and delineating underground voids is in progress. This work is of particular importance in developing enhanced CMM production and reserves at the Gazonor and Saint Etienne project areas.

BENELUX JOINT VENTURE

Subsequent to the end of 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 for the creation of a Joint Venture company ("Benelux JV").

Benelux JV will be 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. The operator ARC Energy is currently drilling Yulleroo No. 2.

FINANCIALS APPENDIX 5B

European Gas has commenced reporting financial information in Euro currency reflecting the principal currency for the company.

At 31 March 2008, the Company had available funds of approximately €10,448,000.

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 producer/developer/explorer 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 having 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 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.

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")

| |
|----------------------|
| 31 March 2008 |
|----------------------|

Consolidated statement of cash flows

| Cash flows related to operating activities | | Current quarter 3 months €000 | Year to date 9 months €000 |
|---|--|--|-------------------------------------|
| 1.1 | Receipts from product sales and related debtors | 2,537 | 2,545 |
| 1.2 | Payments for (a) exploration and evaluation | (909) | (3,753) |
| | (b) development | - | - |
| | (c) production | (623) | (623) |
| | (d) administration | (868) | (1,855) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 5 | 98 |
| 1.5 | Interest and other costs of finance paid | (338) | (338) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Cashcalls – exploration & evaluation | - | - |
| | Net Operating Cash Flows | (196) | (3,925) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: (a) prospects | - | - |
| | (b) equity investments | (352) | (26,605) |
| | (c) other fixed assets | (25) | (43) |
| 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 | (377) | (25,503) |
| 1.13 | Total operating and investing cash flows (carried forward) | (573) | (29,428) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|---------------|-----------------|
| 1.13 | Total operating and investing cash flows (brought forward) | | |
| | | (573) | (29,428) |
| | 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 | (573) | 6,844 |
| 1.21 | Cash at beginning of quarter/year to date | 11,049 | 3,657 |
| 1.22 | Exchange rate adjustments to item 1.21 | (28) | (52) |
| 1.23 | Cash at end of quarter | 10,448 | 10,448 |

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 | 123 |
| 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

| |
|--|
| |
|--|

2.2

| |
|--|
| |
|--|

+ 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 | 2,000 |
| 4.2 Development | - |
| Total | 2,000 |

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 | 3,448 | 11,049 |
| 5.2 Deposits at call | 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> | 10,448 | 11,049 |

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 | <u>Number</u> 4,000,000 4,000,000 1,563,269 | <u>Quoted</u> Nil Nil Nil | <u>Exercise price</u> \$1.00 \$1.50 \$1.00 | <u>Expiry date</u> 28/11/2008 28/11/2010 28/2/2009 |
| 7.8 Issued during quarter | <u>Number</u> | <u>Quoted</u> | <u>Exercise price</u> | <u>Expiry date</u> |
| 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 30 April 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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