

NEWS RELEASE

2 January 2008

GAZONOR S.A. PURCHASE COMPLETE EUROPEAN GAS LIMITED ENTERS PRODUCTION

HIGHLIGHTS

- **Purchase for Gazonor S.A. ("Gazonor") effective.**
- **Completion and handover has been finalised.**
- **Gazonor owns operating coal mine methane (CMM) production assets and associated surface infrastructure in northern France.**
- **Current production approximately 40 Mm³ (1.4 Bcf or 1.5 PJ) of methane per annum.**
- **Subject to feasibility, production levels may be significantly increased.**
- **Independently calculated 1P reserves total 865 Mm³ (30.6 Bcf or 32.6 PJ).**
- **Total desorbable CMM is 10,500 Mm³ (371 Bcf or 395 PJ).**
- **Purchase price €26.2 million (A\$43.7 million).**
- **Purchase price equates to €30.30 per 1000m³ (€0.86 per mcf or €0.80 per GJ) of 1P reserves.**
- **Convertible Notes financing completed for €36.375 million (A\$60.6 million).**
- **Notes are convertible within three years at a price of €0.75 (A\$1.25) per share and carry a coupon rate of 5% per annum.**
- **Financing is by Transcor Astra Group, a subsidiary of Compagnie Nationale À Portefeuille S.A., a substantial European group.**

PURCHASE

European Gas Limited ("European Gas" or "the Company") is pleased to announce that it has been successful in the tender and has acquired 100% of the issued capital of Gazonor S.A. a company incorporated in France ("Gazonor"), which is owned by Filianor S.A.

The Sale and Purchase Agreement ("SPA") has been completed with Filianor S.A which is a wholly owned subsidiary of Charbonnages de France, the French state owned coal mining corporation.

Settlement of the purchase and handover occurred on 28 December 2007.

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

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.).

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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 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 2006, 2,090 million cubic metres (Mm³) (74 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 2006, gas production has averaged 81.2 Mm³ per year (2.9 Bcf) with an average methane content of 54%.



Figure1. Location of European Gas Limited's Projects

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").

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, 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 Mm³ 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).

For 2006, the average methane sale price for Gazonor was €21.70 per MWh (€6.00 per Gigajoule (GJ)). Current forward prices at Zeebrugge, Belgium (principal continental European pricing basis) over the next three months is expected to approximate €24.70 per MWh (€6.90 per GJ). Average forward contracts for the 2008 calendar year currently average €25.40 per MWh (€7.05 per GJ).

FUNDING AGREEMENT

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.

TERMS OF THE 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, a base coupon rate of 5% per annum are 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 will seek shareholder approval for the second tranche to become convertible once the Notes have been issued.

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 will convene a meeting of shareholders to be held in February 2008. A copy of the notice of meeting and explanatory statement will be circulated to shareholders shortly.

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 holds a significant competitive advantage with major holdings under license.

The European natural gas market is substantial with advanced infrastructure, including extensive pipeline networks and a free and open market.

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

COMPLIANCE STATEMENT

The technical information and 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.

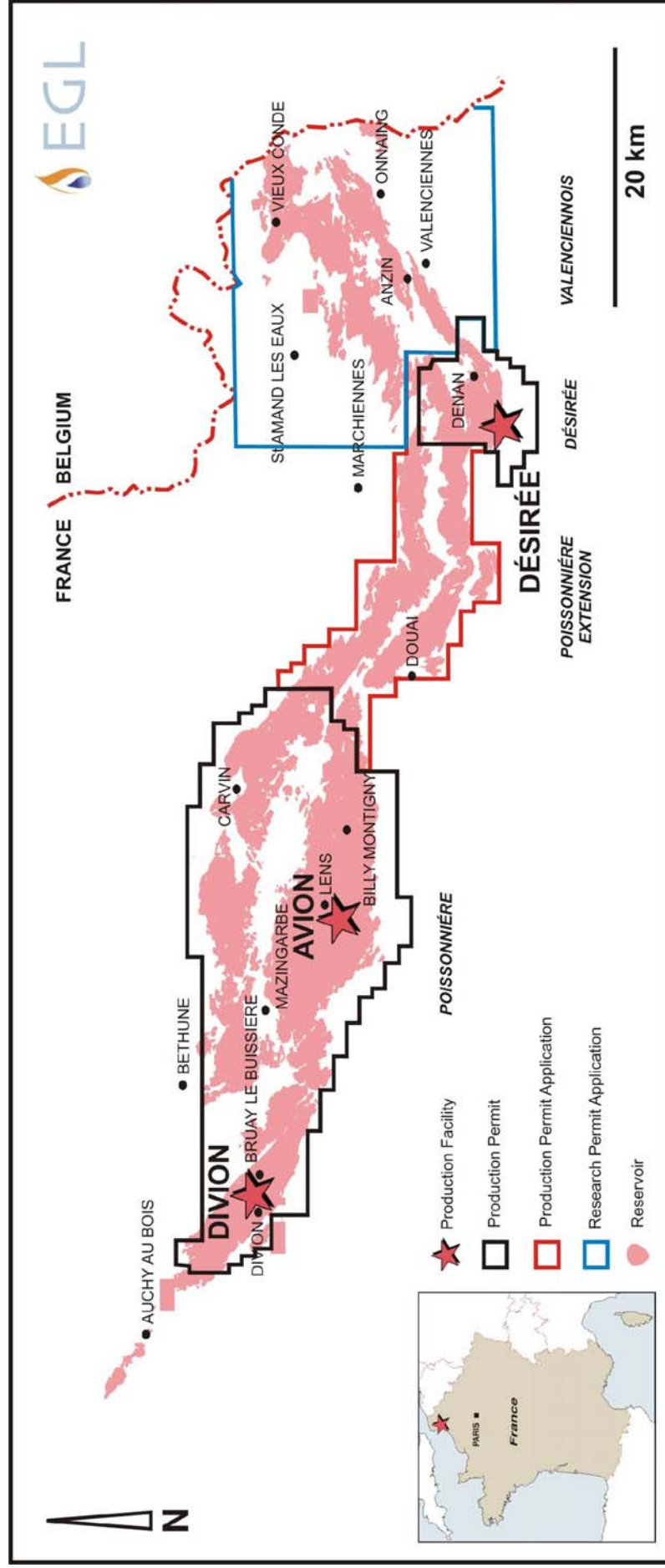


Figure 2. Gazonor S.A. Project Location